

# **City of Hemet**

Hemet, California

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2018*





# City of Hemet

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

**Independent Auditors' Report**

To the Honorable Mayor and Members of City Council  
of the City of Hemet  
Hemet, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hemet, California (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 29, 2018.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2018-003 to be a significant deficiency.

To the Honorable Mayor and Members of City Council  
of the City of Hemet  
Hemet, California  
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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Responses to Findings**

The City's response to the 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 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.

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

Santa Ana, California  
March 29, 2019



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

**Independent Auditors' Report**

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

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

We have audited the City of Hemet, California's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on 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, 2018.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council  
of the City of Hemet  
Hemet, California  
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### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 29, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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.

*The PwC Group, LLP*

Santa Ana, California  
March 29, 2019

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**City of Hemet**  
**Schedule of Federal Award Expenditures**  
**For the Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Grant Identification Number	Federal Expenditures	Expenditures To Subrecipients
<b><u>U.S. Department of Housing and Urban Development</u></b>				
<i>Direct Assistance:</i>				
Community Development Block Grants/Entitlement Grants:				
Community Development Block Grant	14.218	B-17-MC-06-0579	\$ 546,081	\$ 132,577
Neighborhood Stabilization Grant	14.218	B-08-MN-06-0508	9,886	-
Total Community Development Block Grants/Entitlement Grants			<u>555,967</u>	<u>132,577</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>555,967</u>	<u>132,577</u>
<b><u>U.S. Department of Justice</u></b>				
<i>Direct Assistance:</i>				
Gun Violence Reduction	16.710	2013-UM-WX-0038	41,893	-
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.710	2014-DJ-BX-1079	10,285	-
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.710	2016-DJ-BX-0767	97	-
<b>Total U.S. Department of Justice</b>			<u>52,275</u>	<u>-</u>
<b><u>U.S. Department of Transportation</u></b>				
<i>Passed through the State of California Office of Traffic Safety:</i>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18056	55,616	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1752	51,319	-
<b>Total U.S. Department of Transportation</b>			<u>106,935</u>	<u>-</u>
<b><u>U.S. Department of Homeland Security</u></b>				
<i>Passed through the County of Riverside Emergency Management Department:</i>				
Homeland Security Grant Program	97.067	2015-0083	92,103	-
Homeland Security Grant Program	97.067	2017-0083	91,101	-
Homeland Security Grant Program	97.067	2017-0083	50,132	-
Homeland Security Grant Program	97.067	2016-SS-00102	4,226	-
<i>Passed through the County of Riverside Department of Public Health:</i>				
Homeland Security Grant Program	97.067	2016-SS-00102	27,068	-
Total Homeland Security Grant Program			<u>264,630</u>	<u>-</u>
<b>Total U.S. Department of Homeland Security</b>			<u>264,630</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 979,807</u>	<u>\$ 132,577</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**City of Hemet**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

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**Note 1 – Reporting Entity**

The financial reporting entity, as defined by the Governmental Accounting Standards Board (“GASB”) Codification, consists of the primary government, which is the City of Hemet, California (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the City’s financial statements to be misleading or incomplete.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

Funds received under the various grant programs have been recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

***Schedule of Expenditures of Federal Awards***

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California Office of Traffic Safety, County of Riverside Emergency Management Department, and the County of Riverside Department of Public Health, are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**Note 3 – Subrecipients**

For the fiscal year ended June 30, 2018, the City had the following subrecipients funded by the Community Development Block Grant:

Habitat for Humanity	\$	30,000
Care-A-Van Transit		26,800
Center Against Sexual Assault		19,846
Fair Housing Council		17,000
Valley Restart Shelter		14,957
Community Pantry		10,000
Family Services Association		10,000
Hemet Hospice Volunteers		3,974
		3,974
Total	\$	132,577

**Note 4 – Indirect Cost Rate**

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

**City of Hemet**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2018**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	2018-001 and 2018-002
• Significant deficiency(ies) identified?	2018-003
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor’s report issued on compliance for major federal programs	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)	No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.218	Community Development Block Grants/Entitlement Grants	\$ 555,967
	Total Expenditures of All Major Federal Programs	\$ 555,967
	Total Expenditures of Federal Awards	\$ 979,807
	Percentage of Total Expenditures of Federal Awards	56.74%

Dollar threshold used to distinguish between type A and type B program	\$750,000
Auditee qualified as low-risk auditee under 2 CFR section 200.520?	No

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings**

**A. Current Year Findings – Financial Statements**

**Finding 2018-001 Accounting Policies and Procedures**

**Criteria:**

Accounting Policies and Procedures would aid the Finance Department and the City in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

**Condition:**

During our review of control environment, we noted that the City lacked formal policies and procedures. Although the City has informal policies, the City should establish formal and comprehensive policies approved by the City Council to provide detailed guidance to employees and management of the City.

**Cause:**

The City did not have sufficient resources to develop the accounting policies and procedures.

**Identification as a Repeat Finding, if Applicable:**

This is a repeat finding.

**Effect:**

Without the Accounting Policies and Procedures, personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting occur as staffs are unaware of where to find the answers.

**Recommendation:**

We recommend that the City develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an accounting manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

**Management View and Corrective Action Plan:**

The Finance Department has suffered and has experienced turnover in several positions due to retirements, promotions, and staff leaving for other employment. We continue to work with Human Resources to fill the vacancies with qualified individuals. As the positions are filled, employees will be tasked with ensuring procedures are completed for each desk. Staff continues to work on the Accounting Policies. Two more policies are programmed for implementation in FY2018/2019.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings – Financial Statements (Continued)**

**Finding 2018-002 City’s Finance Organization**

**Criteria:**

Control environment sets the tone of an organization, influencing the control consciousness of its people. An effective system of internal control is built and operated in an organization that strives to on the foundation:

1. Achieve its strategic objectives,
2. Provide reliable financial reporting to internal and external stakeholders,
3. Operate its business efficiently and effectively,
4. Comply with all applicable laws and regulations, and
5. Safeguard its assets.

Control environment factors include the integrity, ethical values, and competence of the City’s personnel, management’s philosophy and operating style, the way management assigns authority and responsibility, and organizes and develops its people, and the attention and direction provided by the City Council.

**Condition:**

The City has operated for many years with limited accounting support staff in the Finance Department resulting in inadequate thorough reviews, analysis, and reconciliation of financial transactions. During the current fiscal year a key employee with extensive knowledge of the City’s operations retired and the department expects two additional experienced employees to retired during fiscal year 2019.

**Cause:**

The City’s Finance Department was short staffed heading into the fiscal year. The City also experienced in turnover in key management positions and support staff. The open support positions have not been filled due to a combination of factors including inexperienced applicants and hiring freezes. The Finance Department has had to catch up with backlogs and deal with the day to day activities.

**Effect:**

The lack of staff created a significant burden to the Finance Director and remaining Finance Staff, increased the risk for errors and noncompliance, and resulted in delays in the financial statement closing process, review process, and the process of designing and implementing formal accounting policies and procedures. See findings 2018-001 and 2018-003 for additional information.

**Recommendation:**

We recommend the City establish a well-defined Finance Department and recruit experienced/competent accounting personnel. We also recommend the City evaluate the breadth of the Finance Department workload and take steps to fill necessary positions and define or redefine the roles and responsibilities of each position in order to strengthen its internal control over financial reporting and compliance.

**Views of Responsible Officials and Planned Corrective Actions:**

As stated in Finding 2018-001, Finance continues to work with Human Resources to fill the vacancies with qualified individuals. Job Descriptions are being reviewed and updated as necessary.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings – Financial Statements (Continued)**

**Finding 2018-003 Internal Controls over Journal Entries**

**Criteria:**

Proper management review and approval of journal entries is an essential part of internal control over financial reporting. Manual journal entries are susceptible to fraud by overriding established control procedures and recording unauthorized or inappropriate journal entries or other post closing adjustments. Sound internal controls call for proper authorization and review of journal entries.

**Condition:**

During the review of the journal entries, we noted that 13 out of 25 journal entries did not have proper approval signature of a reviewer. Journal entry reviews are performed during the bank reconciliation review. However, the documentation unrelated to bank reconciliations journal entry reviews and approvals are not maintained.

**Cause:**

There is lack of policies and procedures to mandate the documentation of journal entry reviews and approvals. In addition, due to the conditions reported in finding 2018-002 the Finance Department is under severe time constraints and a proper approval process is difficult to implement in the current circumstances.

**Effect:**

Lack of approvals of journal entries can lead to improper and inaccurate postings of general ledger activity.

**Recommendation:**

We recommend the City adopt formal policies and procedures to ensure all journal entries are reviewed and approved by requiring signatures of a preparer and a reviewer before being posted to the general ledger. See finding 2018-002 for additional recommendations regarding staffing.

**Views of Responsible Officials and Planned Corrective Actions:**

Again, a result of staffing shortages. In FY2018/2019, the current Finance Director is having all journal entries submitted for review and signature as soon as they are gathered for entry. This will be included in updates to procedure manuals and internal policies to ensure awareness amongst all staff.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings – Financial Statements**

**Finding 2017-001 Structural Deficit**

**Criteria:**

A sound government should adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget. The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.

**Condition:**

During the fiscal year ended June 30, 2017, the General Fund has depleted its fund balance by \$2,343,242 to \$12,867,806. The current year expenditures exceeded its revenue by \$1,843,781.

**Cause:**

The cause of the depletion is due to the significant cost increase in employer contributions of the pension plans for both miscellaneous and public safety employees, and the retiree medical effect.

**Identification as a Repeat Finding, if Applicable**

This is a repeat finding.

**Effect:**

The General Fund reserves will continue to be used to fund ongoing operational costs.

**Recommendation:**

We recommend that the City adopt rigorous policies to achieve and maintain structural balance. We also recommend that the City search for alternative source for funding and/or find alternative ways to further reduce costs associated to structural deficit.

**Management View and Corrective Action Plan:**

With the continuing rise in cost of employee pensions and retiree medical, the General Fund is challenged every year to cut costs. Some of the ways the City has worked to cut costs are:

- Amortized the CalPERS unfunded liability over 20 years instead of the standard 30 years.
- The current year's CalPERS unfunded liability is prepaid each year to realize a savings of approximately 3% when compared to making monthly payments.
- Established an OPEB trust fund to work toward funding the future unfunded liability. City Council has directed City Staff to make annual contributions to the fund.

**Status:**

Implemented

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings – Financial Statements (Continued)**

**Finding 2017-002 Accounting Policies and Procedures**

**Criteria:**

Accounting Policies and Procedures would aid the Finance Department and the City in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

**Condition:**

During our review of control environment, we noted that the City lacked formal policies and procedures. Although the City has informal policies, the City should establish formal and comprehensive policies approved by the City Council to provide detailed guidance to employees and management of the City.

**Cause:**

The City did not have sufficient resources to develop the accounting policies and procedures.

**Identification as a Repeat Finding, if Applicable:**

This is a repeat finding.

**Effect:**

Without the Accounting Policies and Procedures, personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting occur as staffs are unaware of where to find the answers.

**Recommendation:**

We recommend that the City develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, Management should consider developing an accounting manual which includes at a minimum:

- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Council/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

**Management View and Corrective Action Plan:**

The Finance Division of the Administrative Services Department continues to work toward establishing written Accounting Policies. The Credit Card Policy was established in early fiscal year 2016-2017. With a recently appointed Finance Director, implementation of these policies is a top priority. The Utility Deposit Policy was established in November 2017. Two other policies are in their final review stages and should be implemented prior to the FY 17/18 year end.

**Status:**

Continued in current year as finding 2018-001.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings – Financial Statements (Continued)**

**Finding 2017-003 Insufficient Billing for the Internal Service Fund Activities**

**Criteria:**

Management is responsible for implementing effective internal control over financial reporting. Effective internal control over internal service fund management requires for timely charge back of internal service activities for accuracy and completeness.

**Condition:**

During our observation of internal control funds, we noted operating losses of \$1,907,170 in Administrative Services Internal Service Fund, \$289,921 in Workers' Compensation Administration Internal Service Fund, and \$640,276 in the OPEB Internal Service Fund.

**Cause:**

This was due to increase in personnel costs, claims and legal charges associated with claims that were not budgeted for the year.

**Identification as a Repeat Finding, if Applicable:**

Not Applicable

**Effect:**

Internal service funds are not reimbursed back and are resulting in operating loss.

**Recommendation:**

We recommend that the City to implement procedures to ensure that internal service funds are budgeted, billed, and paid back in a timely manner and prevent from resulting in operating losses.

**Management View and Corrective Action Plan:**

Internal Service Charges are reviewed annually to ensure charges to departments are realistic. There are times however when an unforeseen claim will need to be processed or times when it is the intent of Administration or Council to use fund balance to cover an expense. An example of this is the operating loss to the OPEB fund. In November 2016, City Council authorized the Finance Department and City Manager to establish an OPEB Trust Fund in an effort to pay down the unfunded liability. \$750,000 was taken from fund balance to fund the trust.

**Status:**

Implemented

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings – Financial Statements (Continued)**

**Finding 2017-004 Timesheet Approval and Payroll Process**

**Criteria:**

Effective internal control over the personnel information and payroll process provides reasonable assurance of the completeness and accuracy of accounting records.

All reports and related supporting documents (e.g., overtime pay authorizations) must be reviewed and approved by an authorized official. Review and approval should be made by the immediate supervisor most knowledgeable of the time worked and absence of the employee involved. Approval of reports and related documents should be based on personal observation, work output, timekeeper verification, checking data against other independent sources, reliance on other controls, or a combination of these methods.

**Condition:**

During our test of controls, we noted that the Safety department didn't require approvals on individual timesheet before payroll is processed. Furthermore, we also noted that the Supervisors are not required to get approval on their timesheet. We recommend that the City implement procedures to ensure that all timesheets are approved before payroll is processed.

**Cause:**

Requiring and verifying approvals before payroll processing delayed meeting established paydays.

**Identification as a Repeat Finding, if Applicable:**

This is a repeat finding.

**Effect:**

The lack of oversight can lead to the risk of inaccurate payroll time reporting and risk of discrepancies not being detected or resolved in a timely manner.

**Recommendation:**

We recommend that the City to implement procedures to ensure that timesheets be approved and that payroll personnel performs independent checks to ensure that all timesheet were approved before processing. When this is not feasible because of payroll processing requirements to meet established paydays, Timesheet should be prepared and approved as close to the end of the pay period as possible to still allow processing of the payroll by payday.

**Management View and Corrective Action Plan:**

The Finance Division continues to work with departments to ensure proper approvals are complete and submitted to the Payroll Specialist. One of the challenges in completing this task is that the Safety Departments must use a separate timekeeping software that does not integrate with the City's payroll software. This software is outdated and the Fire Department is currently working to update to a newer version of the software that can provide the required approval records to payroll.

**Status:**

Implemented.

**City of Hemet**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2018**

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**Section III – Federal Award Findings and Questioned Costs**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2018.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2017.

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