

CITY OF BEAUMONT
BEAUMONT TRANSIT SYSTEM
FINANCIAL STATEMENTS
June 30, 2015

City of Beaumont
Beaumont Transit System
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June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Beaumont Transit System (System) of the City of Beaumont (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System of the City, as of June 30, 2015, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 6 to the financial statements, as of June 30, 2015, the System adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the City of Beaumont, California, as of June 30, 2015, the changes in its financial position, and, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

The prior year comparative information has been derived from the financial statements of the System for the year ended June 30, 2014 and was audited by predecessor auditors whose report dated January 7, 2015, expressed an unmodified opinion on those financial statements. An “Emphasis of Matter” was included in the predecessor auditors report explaining the System’s financial statements present only the System and do not purport to, and do not present the financial position of the City of Beaumont.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Van Lant & Fankhaenel, LLP

February 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This is management's discussion and analysis of the City of Beaumont Transit System ("Transit") financial activities and performance for the fiscal year ended June 30, 2015. Please read this in conjunction with Transit's financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- Majority of funding continues through local transportation funds
- Unearned revenues represent only capital assistance funds at June 30, 2015
- Compliance with GASB 68 created a deficit position for the Transit fund

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Transit's financial statements. The Transit basic financial statements comprise two components: (1) fund financial statements; and (2) notes to the financial statements.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The financial statements are designed to provide readers with an overview of Transit's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of Transit's assets and liabilities, with the difference between the two reported as net position.

The Statement of Revenues, Expenses and Changes in Net Position represents information showing how Transit's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected funding and expenses pertaining to earned but unused vacation and sick leave.

Proprietary funds are generally used to account for services for which the System charges customers.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Analysis of Net Position

As noted earlier, net position may serve as a useful indicator of Transit’s overall financial position.

The following is a condensed summary of Transit’s net position for its business-type activities:

Statement of Net Position				
		Business-type Activities		
		2015	2014	2013
Assets:				
Current and other assets		589,408	382,445	558,481
Capital Assets		739,494	1,104,406	1,196,154
Restricted Assets		725,713	460,700	42,468
	Total Assets	<u>2,054,615</u>	<u>1,947,551</u>	<u>1,797,103</u>
Deferred outflows:				
	Deferred outflows related to pension	156,655	-	-
Liabilities:				
Current and other liabilities		795,557	650,372	397,656
Noncurrent liabilities		673,744	192,773	203,293
	Total liabilities	<u>1,469,301</u>	<u>843,145</u>	<u>600,949</u>
Deferred inflows:				
	Deferred inflows related to pension	182,551	-	-
Net position:				
	Net investment in capital assets	739,494	1,104,406	1,196,154
	Restricted			
	Unrestricted	(180,076)		
	Total net position	<u>559,418</u>	<u>1,104,406</u>	<u>1,196,154</u>

Restricted assets represent unearned revenues for capital assistance. The capital assets are utilized to provide services to citizens and, therefore, these assets are not available for future spending. The City’s net position reflects the investment in its capital assets net of related debt (Transit has no capital asset related debt).

Noncurrent liabilities are comprised of balances related to staff compensated absence calculations and the net pension liability calculated under new reporting standards. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, has been implemented in fiscal year 2015 resulting in a change to the beginning net position as well as a deficit position at the end of fiscal year 2015.

Analysis of Statement of Activities

The following table indicates the changes in net position for governmental and business-type activities:

Statement of Activities				
		Business-type Activities		
		2015	2014	2013
Revenues:				
Operating Revenues:				
	Charges for services	236,771	217,529	190,807
	Contributions	30	-	209,227
	Total operating revenues	236,801	217,529	400,034
Expenses:				
	Salaries	946,295	899,976	648,004
	Fringe Benefits	428,706	474,010	370,439
	Administration	39,929	74,782	60,000
	contract Services	23,949	56,131	98,156
	Fuels and Maintenance	337,445	316,572	444,937
	Supplies	46,380	14,859	12,741
	Office	10,211	12,111	9,273
	Utilities	3,600	13,582	7,508
	Depreciation	375,357	396,358	290,528
	Total expenses	2,211,872	2,258,381	1,941,586
	Operating Income (Loss)	(1,975,071)	(2,040,852)	(1,541,552)
Non-Operating Revenues (Expenses)				
	Interest Income		307	12
	Miscellaneous Income		7,753	12,792
	Local Transportation Fund	1,847,564	1,636,434	1,238,220
		1,847,564	1,644,494	1,251,024
Capital Contributions				
	Riverside Transit Agency (RTA)		20,000	
	Capital Grants	10,445	284,610	800,088
		10,445	304,610	800,088
	Change in Net Position	(117,062)	(91,748)	509,560
	Net Position, Beginning of Year	1,104,406	1,196,154	686,594
	Restatement of Net Position	(427,926)		
	Net Position, End of Year	559,418	1,104,406	1,196,154

Transit's overall net position decreased by \$(117,062) during the current fiscal year.

The majority of funding for the Transit activities is from the Local Transportation Fund. The City of Beaumont is considered a rural transportation area, and as such, there is a compliance element related to a minimum fare ratio of 10%. (see Footnote 7)

Total expenses decreased by \$46,509, which represents 2.1% of total expenses. The Local Transportation Fund is intended to cover the costs of the Transit activities, and excess funds are not appropriate. Therefore, any cost savings to the program will result in a decrease in Local Transportation funding. The financial goal is a net neutral position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Transit System fully complies with the reporting of capital assets and related depreciation for its business-type activities. A summary and comparison of those capital assets have been included in the table below:

Capital Assets				
Business-type Activities				
		2015	2014	2013
TRANSIT FUND				
Buildings		477,782	477,782	193,172
Machinery and equipment		477,625	467,180	467,180
Vehicles		2,041,986	2,041,986	2,086,545
Less accumulated depreciation		(2,257,899)	(1,882,542)	(1,550,743)
		<u>739,494</u>	<u>1,104,406</u>	<u>1,196,154</u>

Debt Administration

Debt outstanding as of June 30, 2015 with a comparison to prior years follows:

Debt Outstanding				
		2015	2014	2013
Net pension liability		491,132	-	-
Compensated absences		200,672	212,773	203,293
		<u>691,804</u>	<u>212,773</u>	<u>203,293</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Riverside District Attorney's office and the FBI's joint investigation resulted in the arrest and indictment of seven former members of City management, including the former City Manager, former City Finance Director for embezzlement of public funds and conspiracy. The former City Attorney and several former City consultants were also arrested on related charges. The City learned of the criminal investigation on April 22, 2015, when the authorities executed a search warrant at City Hall and seized numerous computers and significant documentation. However, the City of Beaumont Transit System does not appear to have any negative impact as it relates to these actions.

Transit has successfully obtained approval for the fiscal years 2015-2016 and 2016-2017 Short Range Transit Plans through the Riverside County Transportation Commission ("RCTC"). Additionally, RCTC has concluded its triennial performance audit of Transit for years 2012-2013 through 2014-2015 and has determined that six of eight applicable compliance requirements have been fully met, and the remaining two have partial compliance. Both requirements with partial compliance are currently targeted for full compliance starting with fiscal year 2015-2016.

REQUEST FOR INFORMATION

These financial statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of Transit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance and Administrative Services Department, 550 S. 6th Street, Beaumont, California, 92223, or finance@beaumontcares.com, or finance@ci.beaumont.ca.us

BASIC FINANCIAL STATEMENTS

City of Beaumont Transit System
Statement of Net Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets:		
Pooled Cash with the City of Beaumont	\$ 589,408	\$ 334,414
Due from Other Governmental Agencies	-	48,031
Total Current Assets	589,408	382,445
Noncurrent Assets:		
Restricted Cash and Investments	725,713	460,700
Capital Assets, Net of Accumulated Depreciation	739,494	1,104,406
Total Noncurrent Assets	1,465,207	1,565,106
Total Assets	2,054,615	1,947,551
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Actuarial Amounts	156,655	-
 LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	51,784	37,236
Unearned Revenues	725,713	593,136
Compensated Absences	18,060	20,000
Total Current Liabilities	795,557	650,372
Noncurrent Liabilities:		
Compensated Absences	182,612	192,773
Net Pension Liability	491,132	-
Total Noncurrent Liabilities	673,744	192,773
Total Liabilities	1,469,301	843,145
 DEFERRED INFLOWS OF RESOURCES		
Pension Actuarial Amounts	182,551	-
 NET POSITION		
Net Investment in Capital Assets	739,494	1,104,406
Unrestricted	(180,076)	-
Total Net Position	\$ 559,418	\$ 1,104,406

The accompanying notes are an integral part of this statement.

City of Beaumont Transit System
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Passenger Fares	\$ 236,771	\$ 217,529
City of Beaumont Contributions	30	-
	236,801	217,529
OPERATING EXPENSES		
Salaries	946,295	899,976
Fringe Benefits	428,706	474,010
Administration	39,929	74,782
Contract Services	23,949	56,131
Fuels, Lubricants, and Maintenance	337,445	316,572
Supplies	46,380	14,859
Office	10,211	12,111
Utilities	3,600	13,582
Depreciation:		
Grant Acquired Property	375,357	396,358
	2,211,872	2,258,381
Operating Income (Loss)	(1,975,071)	(2,040,852)
NON-OPERATING REVENUES (EXPENSES)		
Interest Revenue	-	307
Miscellaneous Revenue	-	7,753
Local Transportation Fund	1,847,564	1,636,434
	1,847,564	1,644,494
CAPITAL CONTRIBUTIONS		
Riverside Transit Agency (RTA)	-	20,000
Capital Grants	10,445	284,610
	10,445	304,610
Change in Net Position	(117,062)	(91,748)
Net Position - Beginning of Year	1,104,406	1,196,154
Restatement of Net Position	(427,926)	-
Net Position - End of Year	\$ 559,418	\$ 1,104,406

The accompanying notes are an integral part of this statement.

City of Beaumont Transit System
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers and Users	\$ 236,801	\$ 217,529
Cash Paid to Suppliers for Goods and Services	(447,631)	(492,506)
Cash Paid to Employees for Services	(1,417,708)	(1,364,506)
Net Cash Provided (Used) By Operating Activities	(1,628,538)	(1,639,483)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash (Paid to)/Received from The City of Beaumont	-	(313,483)
Grants	2,148,545	1,768,870
Other Revenue	-	7,753
Net Cash Provided (Used) by Noncapital Financing Activities	2,148,545	1,463,140
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(10,445)	(284,610)
Capital Grants Received	10,445	1,255,700
Net Cash Provided (Used) By Capital and Related Financing Activities	-	971,090
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Cash and Cash Equivalents	-	307
Net Cash Provided (Used) By Investing Activities	-	307
Net (Decrease) Increase in Cash and Cash Equivalents	520,007	795,054
Cash and Cash Equivalents - Beginning of Year	795,114	60
Cash and Cash Equivalents - End of Year	\$ 1,315,121	\$ 795,114
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,975,071)	\$ (2,040,852)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	375,357	396,358
(Increase) Decrease in Deferred Outflows - Pension Actuarial	(37,106)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	13,883	(4,469)
Increase (Decrease) in Net Pension Liability	(176,051)	-
Increase (Decrease) in Deferred Inflows - Pension Actuarial	182,551	-
Increase (Decrease) in Compensated Absences Payable	(12,101)	9,480
Net Cash Provided By Operating Activities	\$ (1,628,538)	\$ (1,639,483)

The accompanying notes are an integral part of this statement.

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Beaumont Transit System's (System) financial statements are intended to present the financial position and results of operations of only those transactions attributable to the System, operated by the City of Beaumont, California (City). Within the operations of the System, the City operates both Fixed Route and Dial-A-Ride transit systems. The financial statements of the System are included in the basic financial statements of the City.

As an operator of a public transportation system, the City is eligible for Transportation Development Act Public Utilities Code Section 99260 funds. These funds were allocated by the Riverside County Transportation Commission (RCTC) to supplement the City's existing transit operations.

The accounting policies of the System are in conformity with accounting principles generally accepted in the United States of America applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Fund Accounting

The accounts of the City are organized on the basis of funds, which are considered to be separate accounting entities. The operations of the System are accounted for in separate sets of self-balancing accounts that comprise the System's assets, liabilities, net position, revenues, and expenses. Government resources are allocated to and for individual funds based on the purposes for which they are spent and means by which spending activities are controlled. The fund represented in the System's financial statements is a proprietary fund.

Basis of Accounting and Measurement Focus

As a governmental agency, the System is subject to accounting and reporting standards established by the Governmental Accounting Standards Board (GASB). The System uses the accrual basis of accounting. The financial activities of the System are accounted for using the economic resources measurement focus. Under this method, all assets and liabilities associated with its operations are included on the statement of net position; revenues are recorded when earned and expenses are recorded when liabilities are incurred.

The System reports its transit operations as a single enterprise fund.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the System considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the System's principal ongoing operations. The principal operating revenues of the System are fees in connection with providing transit services to customers.

Operating expenses include the costs of providing transit services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Grants

Grant revenues and receivables are recorded when earned on the grants that have been approved and funded by the grantor. Grant sources include, State Transit Assistance (STA), Proposition 1B and Local Transportation Fund (LTF). Transportation Development Act (TDA) includes LTF and STA.

Capital Assets

All capital assets, consisting primarily of vehicles and equipment, are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Capital assets include contributed assets. Contributed assets are recorded at the fair market value or, if fair market value cannot be determined, the estimated cost of the contribution at the date of donation.

Reclassifications

Certain amounts in the June 30, 2014 financial statements have been reclassified to conform the June 30, 2015 financial statement presentation.

Net Position

The difference between assets and liabilities is reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position reflects the carrying value of assets less related liabilities that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position represents the remaining fund equity balance.

Net Position Flow Assumption

Sometimes the System will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the System’s policy to consider restricted net position to have been depleted before unrestricted net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System reports deferred outflows as a result of the System’s implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System reports deferred inflows as a result of the System’s implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which qualify for reporting in this category.

Pension Plan

The City participates in the Public Employees’ Retirement System of the State of California covering all of its permanent employees. The excess, if any, of the actuarially computed value of vested benefits over the amounts available in the pension fund would be a liability of the City as a whole, not of the System. Information regarding the plan description, funding status and progress, actuarially determined contribution requirements and contributions made, and trend information may be found in the City’s basic financial statements.

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

2) CASH AND INVESTMENTS

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The cash balance in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The System's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the System are those of the City and are included in the City's basic financial statements.

See the City of Beaumont's basic financial statements for more information on pooled cash and investments.

Cash and investments as of June 30, 2015 and June 30, 2014 are classified in the accompanying financial statements as follows:

	2015	2014
Statement of Net Position:		
Pooled Cash with the City of Beaumont	\$ 589,408	\$ 334,414
Restricted Cash and Investments	725,713	460,700
Total Cash and Investments	1,315,121	795,114

Cash and investments at June 30, 2015 and June 30, 2014 of \$725,713 and \$460,700, respectively, are restricted for capital improvements.

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

3) CAPITAL ASSETS

Capital assets of the System for fiscal year ended June 30, 2015 are presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Vehicles	\$ 2,041,986	\$ -	\$ -	\$ 2,041,986
Building	477,782	-	-	477,782
Equipment	467,180	10,445	-	477,625
Total Capital Assets, Being Depreciated	2,986,948	10,445	-	2,997,393
Less Accumulated Depreciation:				
Vehicles	(1,428,903)	(261,211)	-	(1,690,114)
Building	(174,180)	(42,570)	-	(216,750)
Equipment	(279,459)	(71,576)	-	(351,035)
Total Accumulated Depreciation	(1,882,542)	(375,357)	-	(2,257,899)
Total Capital Assets Being Depreciated, Net	1,104,406	(364,912)	-	739,494
Capital Assets, Net	\$ 1,104,406	\$ (364,912)	\$ -	\$ 739,494

Capital assets of the System for fiscal year ended June 30, 2014 are presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Vehicles	\$ 2,086,545	\$ 20,000	\$ 64,559	\$ 2,041,986
Building	193,172	284,610	-	477,782
Equipment	467,180	-	-	467,180
Total Capital Assets, Being Depreciated	2,746,897	304,610	64,559	2,986,948
Less Accumulated Depreciation:				
Vehicles	(1,216,650)	(276,812)	64,559	(1,428,903)
Building	(127,267)	(46,913)	-	(174,180)
Equipment	(206,826)	(72,633)	-	(279,459)
Total Accumulated Depreciation	(1,550,743)	(396,358)	64,559	(1,882,542)
Total Capital Assets Being Depreciated, Net	1,196,154	(91,748)	-	1,104,406
Capital Assets, Net	\$ 1,196,154	\$ (91,748)	\$ -	\$ 1,104,406

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

3) CAPITAL ASSETS - Continued

Changes in the capital assets by funding source for the fiscal years ended June 30, 2015 and 2014 were as follows:

	STA Funds	LTF Funds	Measure A	Operator Funds	Prop 1B	Total
June 30, 2013	\$ 1,801,479	\$ 528,474	\$ 95,000	\$ 68,026	\$ 253,918	\$ 2,746,897
Additions	206,426			20,000	78,184	304,610
Deletions	(64,559)					(64,559)
June 30, 2014	1,943,346	528,474	95,000	88,026	332,102	2,986,948
Additions	10,445					10,445
Deletions						-
June 30, 2015	<u>\$ 1,953,791</u>	<u>\$ 528,474</u>	<u>\$ 95,000</u>	<u>\$ 88,026</u>	<u>\$ 332,102</u>	<u>\$ 2,997,393</u>

4) UNEARNED REVENUES

Unearned revenue represents excess operating and excess capital assistance.

Changes in unearned revenues for the fiscal years ended June 30, 2015 and 2014 for operating assistance were as follows:

	<u>LTF</u>
Operating Assistance	
Excess of Operating Funds at June 30, 2013	\$ -
Allocations Received	1,768,870
Funds Available	1,768,870
Less Eligible Costs	(1,636,434)
Excess of Operating Funds at June 30, 2014	132,436
Restatement of Net Position (GASB 68)	(547,634)
Restated at June 30, 2014	(415,198)
Allocations Received	1,847,564
Funds Available	1,432,366
Less Eligible Costs	(1,589,270)
Shortage of Operating Funds at June 30, 2015	<u>\$ (156,904)</u>

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

4) UNEARNED REVENUES - Continued

Changes in unearned revenues for the fiscal years ended June 30, 2015 and 2014 for capital assistance were as follows:

	Proposition 1B	STA	Total
Capital Assistance:			
Excess of Capital Funds at June 30, 2013	\$ 42,468	\$ -	\$ 42,468
Allocations Received	496,252	206,426	702,678
Interest Allocations	164		164
Funds Available	538,884	206,426	745,310
Less Eligible Costs	(78,184)	(206,426)	(284,610)
Excess of Capital Funds at June 30, 2014	460,700	-	460,700
Allocations Received	262,967	10,445	273,412
Interest Allocations	2,046	-	2,046
Funds Available	725,713	10,445	736,158
Less Eligible Costs		(10,445)	(10,445)
Excess of Capital Funds at June 30, 2015	<u>\$ 725,713</u>	<u>\$ -</u>	<u>\$ 725,713</u>

The following is a list of projects related to the deferred capital balance:

Allocation Number	Project Description	Unearned Capital Balance
6461-0002	Bus Shelters Upgrades, Phase II	\$ 16,805
99313-99314	Rolling Stock Procurement and Security Cameras	708,908
		<u>\$ 725,713</u>

5) LONG TERM DEBT

Long-term liabilities of the System for the fiscal years ended June 30, 2015 and June 30, 2014 consisted of the following:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Compensated Absences	\$ 203,293	\$ 51,332	\$ (41,852)	\$ 212,773	\$ 20,000
	<u>\$ 203,293</u>	<u>\$ 51,332</u>	<u>\$ (41,852)</u>	<u>\$ 212,773</u>	<u>\$ 20,000</u>
	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Compensated Absences	\$ 212,773	\$ 53,193	\$ (65,294)	\$ 200,672	\$ 18,060
Net Pension Liability	-	667,183	(176,051)	491,132	-
	<u>\$ 212,773</u>	<u>\$ 720,376</u>	<u>\$ (241,345)</u>	<u>\$ 691,804</u>	<u>\$ 18,060</u>

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

6) DEFINED BENEFIT PENSION PLAN

General Information about the Defined Benefit Pension Plans

The City of Beaumont's Transit System participates in the City of Beaumont's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Employees of the System are employees of the City of Beaumont and participate in the miscellaneous cost-sharing plans of the City of Beaumont as a whole. The required note disclosures regarding pension plans are included in the City of Beaumont's financial statements. Please see those financial statements for information about the plan as a whole.

The net pension liability (NPL) of \$491,132 reported by the System, represents the Transit Funds proportional share of the City's total miscellaneous pool cost-sharing multiple employer defined benefit pension plan of \$4,092,766. The System's NPL represents 12% of the total miscellaneous plan NPL as of June 30, 2015.

7) TRANSPORTATION DEVELOPMENT ACT CONFORMANCE MATTERS

The System is subject to the provisions of Public Utilities Code (PUC) Section 99268.5 and must maintain a minimum fare ratio of 10%.

For fiscal years 2015 and 2014, the System's fare ratio of operating revenues to operating expenses, as calculated below:

	Dial-A-Ride 2015	Fixed Route 2015	Combined 2015	Dial-A-Ride 2014	Fixed Route 2014	Combined 2014
Operating Revenues	\$ 30,093	\$ 206,678	\$ 236,771	\$ 15,912	\$ 201,617	\$ 217,529
Less:						
Fare Revenues Related to New Routes or Extension of Services					(49,660)	(49,660)
Total Operating Revenues	<u>\$ 30,093</u>	<u>\$ 206,678</u>	<u>\$ 236,771</u>	<u>\$ 15,912</u>	<u>\$ 151,957</u>	<u>\$ 167,869</u>
Operating Expenses	\$ 429,825	\$ 1,782,047	\$ 2,211,872	\$ 355,539	\$ 1,902,842	\$ 2,258,381
Less:						
Depreciation Expense	(93,839)	(281,518)	(375,357)	(41,651)	(354,707)	(396,358)
Operating Expenses Related to New Routes or Extension Services				-	(387,034)	(387,034)
Total Operating Expenses	<u>\$ 335,986</u>	<u>\$ 1,500,529</u>	<u>\$ 1,836,515</u>	<u>\$ 313,888</u>	<u>\$ 1,161,101</u>	<u>\$ 1,474,989</u>
Fare Ratio	9.0%	13.8%	12.9%	5.1%	13.1%	11.4%

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

8) PROPOSITION 1B

On November 7, 2006, the voters of the State of California approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, known as Proposition 1B. Proposition 1B included a state program of funding in the amount of \$4 billion and \$1 billion to be deposited in the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) and Transit System Safety, Security and Disaster Response Account (TSSSDRA), respectively. PTMISEA funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation or replacement. TSSSDRA funds can be used for transportation-related security and safety projects.

Proposition 1B activities during the fiscal year ended June 30, 2015 and 2014 were as follows:

	TSSDRA CALEMA	PTMISEA CALTRANS	Total
Unspent Prop 1B Funds as of June 30, 2013	\$ 17,610	\$ 24,858	\$ 42,468
Prop 1B Funds Received	37,101	459,151	496,252
Interest Allocations	39	125	164
Funds Available	54,750	484,134	538,884
Prop 1B Funds Used	(53,300)	(24,884)	(78,184)
Unspent Prop 1B Funds as of June 30, 2014	1,450	459,250	460,700
Prop 1B Funds Received		247,659	247,659
Funding Correction	15,308		15,308
Interest Allocations	47	1,999	2,046
Funds Available	16,805	708,908	725,713
Prop 1B Funds Used			-
Unspent Prop 1B Funds as of June 30, 2015	<u>\$ 16,805</u>	<u>\$ 708,908</u>	<u>\$ 725,713</u>

9) RESTATEMENT OF NET POSITION

The System implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2014-15. As a result, beginning net position in the Statement of Revenues, Expenses and Changes in Net Position was restated by \$(547,634), to reflect the cumulative effect of applying this statement. In addition, beginning net position was restated by \$119,708 for prior year unearned revenues which are now considered earned due to the implementation of GASB Statement No. 68. The net effect of these adjustments results in a restatement of net position of (\$427,926).

City of Beaumont Transit System
Notes to Financial Statements
June 30, 2015 and 2014

9) RESTATEMENT OF NET POSITION – Continued

The financial statements for the year ended June 30, 2014 were not restated to reflect the effects of GASB Statement No. 68 because it was not deemed practical as described in the GASB 68 pronouncement.

10) RISK MANAGEMENT

The System's activities are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, injuries to others, and natural disasters. The System is insured as part of the City of Beaumont's insurance coverage for general liability, property damage, and workers' compensation. See the City of Beaumont's financial statements for more information.

11) CONTINGENCIES

The System's activities are substantially funded by revenues from the State of California, passed through the Riverside County Transportation Commission (RCTC). Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally RCTC. Any disallowed claims, including amounts already collected, may constitute a liability of the System. Management expects the amount, if any, of expenses which may be disallowed by the grantor would be immaterial.

Riverside County District Attorney and FBI Investigation

On April 22, 2015, the Riverside County District Attorney's Office, assisted by the FBI, served search warrants at the Beaumont Civic Center (City Hall). The joint investigation resulted in the arrest and indictment of seven former members of city management, including the former City Manager and former Finance Director for embezzlement of public funds and conspiracy. The former city attorney and several former consultants were also arrested on related charges. It is unknown at this time what the impact of these investigations will be on the System's financial statements, if any. Management expects the impacts of the investigation on the System's financial statements, if any, would be immaterial.

Independent Auditor's Report on Internal Control



**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and Members of the City Council
of the City of Beaumont
Beaumont, 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 Beaumont Transit System (System) of the City of Beaumont, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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 responses, we identified certain deficiencies in internal control 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 as items 2015-1 to 2015-6 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including the Transportation Development Act as prescribed in § 6666 and § of Title 21, Chapter 3, Subchapter 2, Article 5.5 of the California Code of Regulations, 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*.

Beaumont Transit System's Responses to Findings

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Lant & Fankhaed, LLP

February 2, 2017

BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

2015-1: Policies and Procedures

Findings:

Our audit procedures involved obtaining and evaluating various policies and procedures. During our audit, it became apparent that the Beaumont Transit System (described as “City” throughout) lacked formal policies and guidelines in certain areas, including the following:

- Accounting Policies and Procedures
- Fraud Prevention and Detection Policy (Code of Conduct)
- Capital Assets

Although the City may have informal policies in these areas, we believe the City could benefit from a more formal and comprehensive policies and procedures manual, approved by the City Council, which would provide detailed guidance to employees and management. This will help to ensure consistency in these areas, even if there is staff turnover. The following provides more detail regarding these policies and procedures:

Accounting Policies and Procedures

Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

The documentation of accounting policies and procedures should be evaluated annually and updated periodically, as necessary. It should be readily accessible to all applicable employees.

An accounting policies and procedures manual should include a comprehensive list of accounting procedures along with an indication of the employees responsible for completing the procedures. It should delineate the authority and responsibility of all employees, including review and approval procedures. Procedures should be described as they are actually intended to be performed, rather than in some idealized form. The documentation of accounting policies and procedures should explain the design and purpose of control-related procedures to increase employee understanding.

Code of Conduct (including fraud prevention and detection policies)

The City Council and Management are responsible for designing and implementing systems and procedures for the prevention and detection of fraud, and for ensuring a culture and environment that promotes honesty and ethical behavior. This includes the responsibility to develop and implement a formal fraud risk assessment program.

BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

2015-1: Policies and Procedures - Continued

Fraud can range from minor employee theft and unproductive behavior to misappropriation of assets and fraudulent financial reporting. Although external auditors are required to consider the risk of fraud in the audit process, it should be noted that external auditors are not considered part of the City's controls over the prevention and detection of fraud. Rather, external auditors are required to evaluate the City's fraud prevention and detection program, in relation to the audit of the financial statements.

The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. However, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties. Therefore, it is important to place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals that they should not commit fraud because of the likelihood of detection and punishment. Moreover, prevention and deterrence measures are much less costly than the time and expense required for fraud detection and investigation.

During our audit we noted the City has taken steps to address the risk of fraud in certain areas, such as segregation of duties and other internal controls. However, the City should consider developing and expanding its formal fraud policies. For example, the City's current policies do not provide a thorough description of fraud. They also do not provide direction as to what employees should do if they suspect fraud is occurring.

The City should consider establishing a more formal training program for all employees regarding fraud. New employees should be trained at the time of hiring about the entity's code of conduct (and fraud policies). This training should explicitly cover expectations of all employees regarding (1) their duty to communicate certain matters; (2) a list of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and (3) information on how to communicate those matters. In addition to the training at the time of hiring, employees should receive refresher training periodically thereafter.

As mentioned above, management needs to provide information to employees on how to communicate fraud related matters. Research has shown that most fraud is detected by fellow employees, and not by outside auditors or internal controls. It is important for the City to establish and communicate to employees a reporting system that is appropriate for the City. The City should consider establishing a confidential reporting mechanism, not only for employees, but also for vendors and customers of the City.

Overall, the City should establish a formal fraud risk assessment program, to ensure that the risk of fraud is being periodically evaluated, monitored, and that appropriate action is taken to address the identified risks.

In summary, the City has established controls over fraud in certain areas. However, the City should consider expanding its fraud prevention program as discussed above. The above comments do not address all components of a strong antifraud program. Additional information can be provided regarding this issue.

**BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

2015-1: Policies and Procedures - Continued

Capital Assets Policies

We recommend the City establish formal policies regarding capital assets, including capitalization thresholds, depreciation methods and useful lives estimation guidelines, procedures for periodic inventories of tangible assets, procurement and disposal policies, and guidance regarding planning and funding of the City's future capital needs.

As described above, the City should establish procedures for periodic inventories of capital assets. It is essential that governments establish and maintain appropriate inventory systems for their tangible capital assets. Such systems are needed to protect tangible capital assets from the danger of loss or misuse.

As described by GFOA, "Many governments have installed "perpetual" inventory systems to maintain effective control over their tangible capital assets. Perpetual inventory systems are constantly updated to reflect additions and deletions of tangible capital assets, thus providing managers with direct access throughout the year to reliable information on current balances in tangible capital asset accounts. One advantage of establishing and maintaining a sound perpetual inventory system for tangible capital assets is that such a system can relieve a government of the burden of performing an annual inventory of its tangible capital assets. Such a system, however, still requires periodic verification to ensure that it is continuing to function properly as designed."

GFOA recommends that every "local government periodically inventory its tangible capital assets so that all such assets are accounted for, at least on a test basis, no less often than once every five years. While well-designed and properly maintained perpetual inventory systems can eliminate the need for an annual inventory of a governments tangible capital assets, no inventory system is so reliable as to eliminate completely the need for a periodic physical inventory."

We recommend the City take the necessary steps to ensure that capital assets and related depreciation are properly and consistently reported, including the establishment of formal policies and procedures in this area.

Recommendation:

We recommend the City develop and establish formal policies and procedures as discussed above. The policies and procedures should be developed by appropriate personnel and approved by the City Council. The City should consider GFOA's recommended practices and other resources during the process.

Management's Response:

Accounting Policies and Procedures

While the Transit management oversees ongoing service and compliance aspects of the Beaumont Transit System, the City of Beaumont management had ultimate control over the Transit System financial

BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

2015-1: Policies and Procedures - Continued

reporting and other broader based management oversight. City management staff has changed, and with that change, corrective actions have been taken. The City Council has formed an oversight Financial and Audit Committee to review significant financial transactions and vet policies and procedures related to the financial functions of the city. Additionally, City policies and procedures have been adopted that include financial practices. Management has addressed overall segregation of duties and has taken steps to create mitigation controls where necessary.

Fraud Prevention and Detection Policy (Code of Conduct)

All City management has participated in ethics training and a code of conduct has been adopted. Staff have been verbally advised that if they “see something, say something.” A formal fraud risk assessment program has not been developed, but will be discussed and drafted in the future.

Capital Assets

Capital assets have been properly recorded in the Beaumont Transit System, but overall City related capital asset policies were vague and inconsistent with respect to the classification and the useful lives of fixed assets. A more comprehensive policy has been adopted by City Council and will be applied consistently going forward. Beaumont Transit System maintains an inventory listing of fixed assets placed in service utilizing capital funds as provided through the various funding sources; however, any assets being used by the Beaumont Transit System that were acquired through City funds are not tracked at the same detail level. The City is currently working towards a contract through an RFP process to have all City assets identified, tagged, valued and recorded in order to properly comply with GFOA recommendations.

2015-2: Accounting Records and Financial Reporting

Findings:

The City’s Management and City Council are responsible for the preparation and fair presentation of financial statements in accordance with applicable accounting pronouncements. This includes the design and implementation of relevant internal controls to ensure accurate and timely financial reporting. At the start of the 2014-15 audit process, it became apparent that significant analysis and adjustments were yet to be performed for the fiscal year ended June 30, 2015. It appeared various accounts in the City’s general ledger had not been properly analyzed and adjusted for quite some time. Throughout the audit process, the City’s current Finance staff provided us with the necessary analysis and adjustments, as requested. However, much of the analysis, reconciliations and adjustments were completed several months after year-end. It should be noted that much of the accounting work for the 2015-16 fiscal year had to be performed by new Finance personnel who joined the City in 2016. In other words, the 2015-16 accounting records were in disarray prior to the current staff, and a significant amount of effort was expended to analyze and adjust these records.

**BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

2015-2: Accounting Records and Financial Reporting

This situation may be the result of various factors, including turnover in City management, inadequate oversight by the City's management, and the lack of formal policies and procedures discussed in Finding 2015-1 above. The year-end closing process, including necessary analysis, reconciliations, and adjustments, should normally be completed within a few months after year-end. If accounting records are consistently and accurately maintained throughout each fiscal year, the year-end closing process can be completed in a much more efficient manner. If balances and transactions have not been analyzed and reconciled in a timely manner, it could be an indication that City management is not receiving accurate financial information throughout each fiscal year. In addition, the City may not be able to comply with various reporting requirements in a timely manner (State and Federal deadlines).

Recommendation:

We recommend the City take steps to evaluate the current accounting policies and procedures, and determine what revisions may be necessary to ensure timely and accurate financial reporting. In addition to the formal accounting policies and procedures manual discussed above, we recommend the City prepare a schedule of accounting procedures to be performed each month, quarter, and at year-end, as applicable. The schedule should include a detailed description of the required analysis and adjustments, along with due dates for the various procedures. The schedule should include provision for sign-off, indicating when the applicable procedures were performed and reviewed as necessary. Applicable City staff should be thoroughly trained and knowledgeable regarding generally accepted accounting principles as they relate to local governments. This will help to ensure accurate, consistent and timely financial reporting.

Management's Response:

While the Transit management oversees ongoing service and compliance aspects of the Beaumont Transit System, the City of Beaumont management had ultimate control over the Transit System financial reporting and other broader based management oversight. The City Council has adopted formalized policies and procedures, which include financial practices. For The entire financial reporting software system is currently being upgraded and integrated which will have a significant impact. The day-to-day financial department policies and procedures have been discussed and an initial draft has been prepared. When the reporting system is in place, the policies and procedures will be further addressed, and a final draft will be presented to the Finance and Audit committee for discussion and ultimate recommendation to City Council for approval. The finance staff includes individuals with training and education in accounting, and the current Director of Finance is a certified public accountant in California with knowledge and background in government accounting practices.

**BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

2015-3 Segregation of Duties for Bus Passes

Condition:

The same City staff issuing bus passes are also responsible for collecting and receipting payments from customers into the City's cash receipts system. Also, there does not seem to be any sort of inventory control over the bus passes or a way to reconcile the bus passes sold with corresponding receipts.

Criteria:

In a strong internal control environment, the same individual should not have access to the payments from customers and the ability to issue bus passes unless an appropriate mitigating control has been implemented.

Potential Effect of Condition:

Bus passes could be issued without the cash receipts being properly deposited into the City's bank account or recorded in the City's general ledger.

Recommendation:

We recommend the City implement a procedure to control the inventory of the bus passes, such as numerical sequence control, in order to reconcile the number of bus passes sold and the amounts recorded as revenue and posted in the City's general ledger.

Management's Response:

While the Transit management oversees ongoing service and compliance aspects of the Beaumont Transit System, the City of Beaumont management had ultimate control over the Transit System financial reporting and other broader based management oversight. Bus passes are sold to the public outside of the Transit department staff. The internal system for issuance of bus passes is currently under review and a final procedure will include safeguarding and tracking of the various bus passes that are purchased and sold.

2015-4 Lack of Controls Over Payroll

Condition:

One Accounting Technician is responsible for administering all payroll related information on the Paychex payroll website, including updating employee pay rates, vacation accruals, direct deposit information, and setting up new employees. Although the Accounting Technician provides a copy of the payroll register to the Finance Manager, the register is provided by the Accounting Technician and not obtained independently by the Finance Manager and, in addition, the payroll register provided is the preliminary register. In addition, all changes made by the Accounting Technician to the Paychex information (payroll database) are included on a report provided by the Accounting Technician and given directly to the Finance Manager; however, this report is not obtained from the Paychex system directly by the Finance Manager. Also, the physical payroll checks printed by Paychex are received directly by the Accounting Technician.

**BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

2015-4 Lack of Controls Over Payroll

Criteria:

In a strong internal control environment, the individual responsible for reviewing the payroll register should obtain the information directly from the payroll system, compare preliminary payroll registers with the final registers, and independently generate reports each pay period that include all changes made to the payroll database since the previous pay period, verifying changes with applicable supporting documentation. Also, the physical payroll checks should not be in the possession of the accounting technician responsible for administering the payroll system.

Cause of Condition:

Lack of segregation of duties over payroll processing and payroll database.

Potential Effect of Condition:

Unauthorized changes could be made to the payroll database and errors in the payroll function could go undetected without sufficient review and oversight by City staff independent of payroll processing. Payroll errors could cause significant financial effects to the City's financial statements.

Recommendation:

Procedures should be implemented to ensure sufficient oversight and review by the someone independent of the payroll function. We recommend the individual responsible for review and oversight of the payroll function obtain payroll reports directly from the payroll system, compare preliminary and final payroll reports, generate an audit trail report each pay period and reconcile all changes made to applicable supporting documentation. In addition, we recommend physical payroll checks be held and distributed by an individual outside of the payroll processing function.

Management's Response:

While the Transit management oversees ongoing service and compliance aspects of the Beaumont Transit System, the City of Beaumont management had ultimate control over the Transit System financial reporting and other broader based management oversight. The payroll processing function contained no verification step matching the originally approved department staff hours to the final payroll report after submission to the outside third party payroll vendor. An additional step for verifying the final processed payroll to the original approved staff hours has since been implemented. The majority of all City employees are paid via direct deposit. Any live payroll checks are held at the finance office, and the individual employee must sign for their check. The signature log is maintained with the applicable payroll period reporting package.

**BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

2015-5 Controls Over Accrued Vacation

Condition:

The Paychex payroll database tracks the vacation accruals for employees through automatic accruals for each pay period for each employee. The City has established, through Memorandums of Understanding (MOUs) with various employee unions, caps on the number of hours that can be accrued by employees. However, there does not appear to be any monitoring of the vacation hours to ensure the payroll system does not continue to accrue vacation hours once the cap has been reached. Furthermore, our review of the vacation accrual schedule found the number of hours accrued by a couple of employees exceeded the maximum number of hours per the applicable MOU.

Criteria:

Various City MOU's state the maximum vacation accrual shall not exceed the equivalent of the accrual earned for a 2-year period. We found two employees with accrued vacation above this maximum accrual.

Cause of Condition:

The payroll system does not have a control in place to cap accrual hours once they have exceeded the maximum per the MOUs and no other monitoring by City staff to verify accrued hours are in accordance with the MOUs.

Potential Effect of Condition:

The liability for accrued vacation could be misstated, City employees could earn and use more vacation hours than allowable by the MOUs, and payouts to employees upon retirement could be higher than allowable by the MOUs.

Recommendation:

We recommend the City review the payroll system to determine if a cap control system could be implemented to prevent vacation hours from continuing to accrue once the maximum hours per the MOUs have been reached. In addition, periodically, the City should monitor the vacation accruals to ensure all vacation hours accruing are within the applicable MOU.

Management's Response:

While the Transit management oversees ongoing service and compliance aspects of the Beaumont Transit System, the City of Beaumont management had ultimate control over the Transit System financial reporting and other broader based management oversight. The finance department has begun providing employee time-off bank reports to all responsible directors and supervisors on a monthly basis to verify the accuracy and availability of accrued time for their staff. The MOUs currently contain caps on the sick and vacation that can be accrued. While the finance software is upgraded and integrated, the payroll processing software is also being updated. The goal is to have better integration, reporting, and control over various aspects of the payroll process, which includes implementation of system time bank caps.

**BEAUMONT TRANSIT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

2015-6 Inadequate Budgetary Controls

Condition:

On June 17, 2014, the City Council adopted the annual operating budget for the 2014-15 fiscal year. Through review of the budget document we found the document was lacking in significant detail and guidance for management to monitor, such as line item budgeted amounts for Transit Fund departments and descriptions of the budgeted amounts. In addition, we found that the adopted budget amounts were not properly entered into the City's general ledger accounting system. Throughout the 2014-15 fiscal year, it does not appear that City management and City Council were provided meaningful financial information that included budget to actual reports generated from the general ledger accounting system. Also, it does not appear that mid-year budget reviews were completed during the fiscal year to determine what budget amendments may have been needed, if any.

Criteria:

The budget serves as a control mechanism over expenditures and is a vital tool for management to properly track and monitor the City's financial progress compared to expectations established in a formal budget document. "Budget to Actual" comparisons should be reviewed by all management personnel and presented to City Council at least monthly to ensure financial targets are being met and to determine where significant variances may occur.

Cause of Condition:

Lack of oversight by City Council and lack of a detailed budget document.

Recommendation:

As detailed in the City's annual operating budget for fiscal year 2016-17, current management has made significant progress in creating a detailed budget document with sufficient guidance for management and the City Council to closely monitor the financial progress of the City throughout the fiscal year. We recommend the management continue with its detailed budget presentation and ensure continuous monitoring of the "Budget to Actuals" throughout the year, along with presentation to City Council at least monthly.

Management's Response:

While the Transit management oversees ongoing service and compliance aspects of the Beaumont Transit System, the City of Beaumont management had ultimate control over the Transit System financial reporting and other broader based management oversight. The Transit management staff utilizes the Short Range Transit Plan (SRTP) budget that has been approved through the Riverside County Transportation Commission (RCTC) on an annual basis to make the applicable decisions related to Transit System activities. However, City management did not utilize this document to its full extent, and therefore, the budget in the financial software was not complete. The City is incorporating the SRTP into the budgeting process for a higher level of budgetary control going forward.