

CITY OF LONG BEACH, NEW YORK

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
June 14, 2022**

Bonadio & Co., LLP
Certified Public Accountants

June 14, 2022

To the City Council of the
City of Long Beach, New York:

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining funds of the City of Long Beach (the City) as of and for the years ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 discussed below, 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 deficiency in internal control noted within the attached, to be a material weakness.

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.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, the City Council, others within City, and is not intended to be, and should not be, used by anyone other than these specified parties.

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Material weakness

1. SIGNIFICANT PRIOR PERIOD ADJUSTMENT

Observation

During the fiscal years 2020 and 2021, the City hired a consultant to help reconcile the capital projects fund. As stated within the financial statements Government Auditing Standards report, this reconciliation led to significant prior period adjustments within the governmental funds.

Recommendation

The City should continue to ensure that capital projects are properly funded and reconciled.

Management Response

Management addressed this situation. This finding pertains to adjustments needed in prior years of operations.

Internal control deficiencies and other matters

1. COMPENSATED ABSENCES – REPEAT COMMENT

Observation

During our audit of the procedures relating to the City's compensated absences, we noted that the policy and collective bargaining agreements that are currently in place are not consistent with the practice of accruing and paying compensated time. Based on the agreements or policies in place, police and fire should accrue a max of 480 hours, all others max out at 360. It was noted that many individuals have been allowed to accrue amounts over the max limits. This increases the liability owed by the City to those employees.

Recommendation

Although the liability reported on the books of the City is accurate, the City is not following agreements and policies it has in place. Therefore, the City should review this information and determine the best way in which to comply with policies and agreements in place.

Management Response

Management is addressing this condition. All hours over the maximum limits as per Fair Labor Law will be paid out in all City departments other than Police. The Police department implemented a scheduling system that precludes the additional accrual of hours for those employees who have either maximum or above maximum compensated time balances. Utilizing this system the Police department balances over maximum amount will be depleted and brought to those allowable by law. In addition, control procedures are implemented in the City payroll department to prevent accumulation of hours above maximum limits in all other departments.

2. STOA RIDER TRACKING – REPEAT COMMENT

Observation

During our audit of the STOA program, we noted that the City uses clickers to track passenger ridership. There is one clicker used by each driver for different fare-paying passengers. When the rider enters the bus, the driver counts the passenger as one click. This information is then recorded and sent to the Director of Transportation and a tracking sheet is prepared. This manual process does not distinguish between different passenger types and presents the risk of manipulation or error prior to receipt by the Director of

Transportation's office reporting. This also will not accurately reflect daily revenues as they will not be able to track the daily cash receipts back to the different types of riders.

Recommendation

In order to more accurately reflect both the different types of riders and the total number of riders, it is recommended that the City install electronic fare boxes. Once the boxes are installed the Director of Transportation will be able to review a more accurate report of ridership and reconcile that with revenues collected, which will also help in mitigating lost revenues.

Management Response

The City has two different clickers on the buses to track passengers. One is for paying passengers and the other is for unticketed passengers. The City reports both figures for the STOA program. They are manual counts but covers what the program requires. The City should have an automated passenger count system in place by the end of Fiscal Year 2023 with the approval of the Automatic Vehicle Location system.

3. UNDOCUMENTED CONTROLS – REPEAT COMMENT

Observation

While gaining and understanding of the internal control processes at the City, it was noted that certain reviews being performed did not provide documented evidence that the reviews occurred that would enable observation and monitoring of the control. The City Controller performs reviews of the fixed asset spreadsheet, compensated absence spreadsheet, other post-employment benefits liability (GASB 75) report from the actuary, and self insurance reports, however, the reviews are not signed off or initialed to ensure the review occurred and when it occurred.

Recommendation

Internal control policies and procedures are put into place to aid in the mitigation of risk of errors or fraud in the financial information. To help ensure that processes are operating as they are designed, the verification of the review or authorization should document who performed the review and when the review occurred. Therefore, we recommend the City ensure that all reviews that are occurring have a signature or some other type of observable evidence of the control occurring and the timing of that control for monitoring purposes.

Management Response

Management partially agrees with the comment. The fixed assets spreadsheet is both prepared and reviewed by City Comptroller and therefore does not need additional review documentation. The City Comptroller's office will be explicitly documenting the review of the above-mentioned reports.

4. FINANCIAL STATEMENT CLOSE PROCESS – REPEAT COMMENT

Observation

For the year ended June 30, 2020, the City's year end close process continued on into early 2021. This continued for the year ended 2021. The trial balances that were received for audit purposes required significant adjustments by the City, in order to properly reflect the financial transactions that had occurred during the fiscal year. This caused issues in auditing certain account balances and ultimately delays in the audit completion. Additionally, the extended closing process results in an inability for the City to provide accurate, timely and meaningful internal reporting that the City can use in its ongoing decision making.

Recommendation

While we recognize that the City has faced obstacles during this last two years related to the COVID-19 Pandemic, the City should ensure that internal controls that ensure that the financial information of the City is accurately reflected in an efficient and timely manner are occurring and can be observed. This process would then result in the timely completion of the City’s financial reporting and timely financial statement auditing.

Management Response

Management agrees with the comment. The close process will be completed before the start of the audit. COVID-19 related staff absences and the fact that the office is understaffed caused interruptions in the closing process. The City is currently hiring for a vacant position of a Deputy City Comptroller. There are steps being taken to mitigate this condition for upcoming fiscal year 2022 audit.

5. FISCAL STRESS – REPEAT COMMENT

Observation

The New York State Office of the State Comptroller (“OSC”) developed and launched a Fiscal Stress Monitoring system in 2013. Each year, municipalities within NYS are assessed as to whether they are experiencing notable levels of fiscal stress. This model uses specific financial indicators to evaluate, from a budgetary solvency perspective, whether the local government has the ability to generate enough revenue to meet expenditures. These financial indicators are analyzed for areas such as fund balance levels, operating deficits, cash on hand, fixed costs and short-term cash flow borrowing. There are also non-financial indicators, that are generally outside the direct control of the City, such as tax base, population growth, and poverty levels.

For the fiscal year ended June 30, 2021, OSC listed the City of Long Beach as in “Susceptible Fiscal Stress”, with a score of 45.0. This is a reduction from the June 30, 2020 score of 77.1 which was “Significant Stress”. The score at which municipalities are considered in significant stress is greater than 65. Significant contributing factors in this score where the level of assigned, unassigned and total fund balance as well as operating deficits.

Recommendation

Based on the reports issued by OSC and our observations, we continue to recommend that the City commit significant time and resources towards developing future budgets that address some of the more significant factors in this fiscal stress assessment such as increasing the assigned, unassigned and total fund balance and reducing operating deficits.

Management Response

The City of Long Beach Fiscal Stress Score for Fiscal Year 2021 as published by the NYS Office of the State Comptroller is 45 – which puts the City in the “Susceptible Fiscal Stress Category”, which is a significant improvement from prior years.

2019	2020	2021
85	77.1	45
Significant Fiscal Stress	Significant Fiscal Stress	Susceptible Fiscal Stress

6. PAYROLL TIME ENTRY PROCESS – REPEAT COMMENT

Observation

Based on the information obtained during our interviews and walkthroughs of the payroll process, it was noted that, although the City has procedures in place to obtain and record employee time worked, the process is very manual which could be susceptible to error. Handwritten timesheets or timecards are obtained from departments which are reviewed manually by department heads. Those manual timesheets are then entered into the City's payroll system. This could allow for errors in both the approval of time actually worked and the time entered into the system. In addition, the time recorded for the accrual and use of time off could also be susceptible to errors due to the manual entry process.

Recommendation

The City would benefit from an electronic timekeeping system that would collect the time records of the employees that worked during the payroll period and from that system the information could be directly input into the payroll software for processing. This would create efficiencies in obtaining and processing payroll, while also mitigating the manual recording and input errors that could occur with the manual system currently in use.

Management Response

Management agrees with the auditors' comment, NYS Financial restructuring Board had approved at their November 2021 meeting a grant in the amount of \$200,000 to procure and implement a modern timekeeping system. This grant operates on a reimbursement basis, expenses anticipated in connection with the system implementation will be included in the City's Capital Plan for Fiscal Year 2023 – 2027.

7. CAPITAL ASSET TRACKING SYSTEM – REPEAT COMMENT

Observation

While obtaining an understanding of the City's process related to asset additions and dispositions, we noted that the City currently does not have an asset tracking or tagging process. This does not allow the City to track assets to ensure they are still in the City's possession and at the site at which they are supposed to be located. Without a tracking system in place, items may be left on the fixed asset listing that have been sold or scrapped. This could lead to discrepancies in the value of the fixed assets.

Recommendation

To ensure that the City's assets are safeguarded and properly stated, we recommend the City create a process by which assets that are purchased are tagged and logged in by an identifying number, to the fixed asset listing. We also recommend that on an ongoing basis the City perform inventories of assets to ensure they still exist and are where they should be located within the City. This should be incorporated with software that can track assets to ensure efficiencies.

Management Response

Management agrees with the auditors' comment, NYS Financial restructuring Board had approved at their November 2021 meeting a grant in the amount of \$50,000 to implement a series of best practices relating to fixed assets. This grant operates on a reimbursement basis, expenses anticipated in connection with the system implementation will be included in the City's Capital Plan for Fiscal Year 2023 – 2027.