

CITY OF LONG BEACH, NEW YORK

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
June 9, 2021**

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Certified Public Accountants

June 9, 2021

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, 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, 2020, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

CITY OF LONG BEACH, NEW YORK

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1. COMPENSATED ABSENCES

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

City Administration in collaboration with the outside consultants are looking to address this issue and establish procedures that comply with the existing policies.

2. GRANT MANAGEMENT

Observation

The City administers various grants at the department level. It was noted during our inquiry that certain grants may not be known to the Comptroller's office until ACH payments have been received. Upon recognition of the grant, the Comptroller's office will inquire as to what grant the funds are for and obtain all documentation. Issues in reporting, accounting and administration of the grants could occur in instances where the Comptroller's office is not fully aware of what grants are being run in the City.

Recommendation

We recommend that a procedure be established whereby, as each department obtains grant funding, they send a copy of the grant narrative and budget to the Comptroller's office. When expenditures are incurred, a copy of the completed voucher should also go to the Comptroller's office on a monthly basis. This will allow for the reconciliation of the grants to the amounts accounted for in the KVS accounting software. Proper receivables and revenues can be recorded based on the information provided.

Management Response

During fiscal year 2021, the City had developed and implemented Grant Policy. In addition City had established Grant Management Committee, which is cross functional, meets on a regular basis and involves representation of various functional as well as administrative departments. These advances should benefit financial management over grants but also contribute towards better grant research and application, which should in turn bring more grant revenue to the City.

3. STOA RIDER TRACKING

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 uniticket passengers. The City reports both figures for the STOA program. They are manual counts but covers what the program requires. The electronic fare system should be implemented within the next 18 months and will give the city more detailed passenger information.

4. UNDOCUMENTED CONTROLS

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. In addition, certain cash collections, such as water payments received, are not signed or initialed when they are matched to the amount billed. The water bills that are created are also said to be matched to the meter readings, however, this was also not documented by a signature or initial as completed.

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 agrees with the finding. The City Comptroller department was not adequately staffed to accomplish this. There has been changes in the composition of the department as well as changes in internal controls and control documentation. City Administration believes that the first step in the process of creating viable control environment is to establish formal policies. City had developed and implemented / implementing numerous policies. Internal control procedures are now also being implemented.

5. FINANCIAL STATEMENT CLOSE PROCESS

Observation

For the year ended June 30, 2020, the City's year end close process continued on into early 2021. The trial balances that were received for audit purposes required significant adjustments by the City, and auditor, 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 year 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 finding. Close process should be completed before the start of the audit. There are steps taken to mitigate this condition for upcoming fiscal year 2021 audit.

6. FISCAL STRESS

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, 2020, OSC listed the City of Long Beach as in "significant stress", with a score of 77.1. The score at which municipalities are considered in significant stress is greater than 65. Significant contributing factors in this score were 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 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

Management agrees with the auditors' finding.

7. PAYROLL TIME ENTRY PROCESS

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' finding.

8. CAPITAL ASSET TRACKING SYSTEM

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' finding.