ATTACHMENT C

CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED
JUNE 30, 2025

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CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2025

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of San Leandro, California

In planning and performing our audit of the basic financial statements of the City of San Leandro (City) as of and for the year ended June 30, 2025, 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 City'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Other Matters. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
December 30, 2025

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CITY OF SAN LEANDRO
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SCHEDULE OF OTHER MATTERS

2025-01 Timely Submission of Treasurer's Report

Criteria: California Government Code Section 53646 states that the Finance Director may render a quarterly report on the status of the City's investment portfolio to the City Manager and the City Council within 45 days after the end of the calendar quarter.

Condition: During our review of the Treasurers Report for the first quarter of 2025, we noted that it was submitted to the Finance Committee for review and approval on June 25, 2025, which is more than 45 days from the quarter ended March 31, 2025. At the time of our testing in July, the report had not yet been submitted to the City Council.

Effect: The City is not in compliance with the California Government Code and with terms included in the City's Investment Policy.

Cause: City staff explained that the Treasurer's Report was delayed by nearly three months because staff needed to prioritize the preparation of the annual budget report. This year's budgeting process was especially demanding and required significant staff time and effort, which affected the timely completion of other responsibilities, including the Treasurer's Report.

Recommendation: In order to be in compliance with the California Government Code and City's Investment Policy, sufficient resources should be attained in order to be able to submit the quarterly Treasurer's Reports within 45 days of the end of each quarter.

Management's Response:

The City agrees with this recommendation. To ensure we meet the 45 day requirement, staff is recommending that a memo is provided to the full Council and City Manager, including the date in which the quarterly report will be presented to the Finance Committee for further consideration and recommendation to present to the full City Council for acceptance of the quarterly investment report.

SCHEDULE OF OTHER MATTERS

2025-02 Cross-Training for Payroll Processing

Criteria: Effective internal control standards and best practices recommend that key financial functions, such as payroll processing, have documented backup procedures and adequately cross-trained personnel. This helps ensure continuity of operations and reduces the risk of errors, fraud, or delays in processing during significant staff absences. It is also an effective control to have a secondary person process at least one or two batches a year to review for any significant fluctuations or unusual activities.

Condition: During our review of the City's internal control structure over key financial functions, we noted that the City has not cross-trained a staff member to serve as backup for the Payroll Clerk, in the case the Payroll Clerk is on vacation or has an extended absence.

Potential Effect: Without a fully cross-trained backup payroll processor, payroll processing could be delayed, or key deadlines could be missed, in the event of a sudden or extended absence.

Cause: The City Finance department has experienced significant turnover and understaffing in recent years, and has not yet had the opportunity to fully cross-train a backup for payroll processing.

Recommendation: In order to ensure significant transaction processing cycles, such as payroll processing, can continue to work effectively in the case of sudden or long-term absences, all cycles should have at least one fully-trained backup. This will also improve internal controls by having a secondary staff complete the payroll process at least once or twice a year to review for any significant fluctuations or unusual activities.

Management's Response:

The City agrees with this recommendation. The Finance Department has already taken steps to ensure that multiple staff members are cross-trained in the payroll function. In addition to the full-time Payroll Specialist, who is trained to process payroll, we have brought in a full-time Accounting Assistant to learn and assist with payroll processing. This is in addition to the Payroll Supervisor and our long-term consultant, both of whom are fully capable of processing payroll independently.

SCHEDULE OF OTHER MATTERS

2025-03 Upcoming Government Accounting Standards Board (GASB) Pronouncements

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2025/26:

GASB 103 – *Financial Reporting Model Improvements*

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

Management's Discussion and Analysis

This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

Unusual or Infrequent Items

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

SCHEDULE OF OTHER MATTERS

GASB 103 – *Financial Reporting Model Improvements (Continued)*

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

Major Component Unit Information

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information

This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

How the Changes in This Statement Will Improve Financial Reporting

The requirements for MD&A will improve the quality of the analysis of changes from the prior year, which will enhance the relevance of that information. They also will provide clarity regarding what information should be presented in MD&A.

The requirements for the separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources.

The definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability. The addition of a subtotal for operating income (loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position.

The requirement for presentation of major component unit information will improve comparability.

The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2026/27:

GASB 104 – *Disclosure of Certain Capital Assets*

State and local governments are required to provide detailed information about capital assets in notes to financial statements. GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with GASB Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information about certain types of capital assets in order to make informed decisions and assess accountability. Additionally, the disclosure requirements will im-prove consistency and comparability between governments.

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CURRENT YEAR STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2024-01 Timeliness of Bank Reconciliations

Criteria: Bank reconciliations are an important element of the City's internal control structure. In order to have an effective control, the City should complete bank reconciliations as soon as possible after each month-end, usually within thirty days of receipt of statements, and subsequently review for accuracy. Errors and un-reconciled differences should be researched, understood and corrected immediately, so as to prevent additional errors and a decrease in efficiency.

Condition: During our testing of bank reconciliations, it was noted that the Wells Fargo November 2023 and March 2024 general checking bank reconciliations were not prepared and reviewed until July 2024, which is more than 30-45 days past month end.

Effect: Any errors, irregularities, and/or check fraud may not be detected and corrected in a timely manner.

Cause: The City faced high staff turnover in the past few fiscal years and were in the process of training a new employee for this task.

Recommendation: The City should consider bank reconciliations as a high priority and ensure that bank reconciliations are reviewed in a timely manner (within 30-45 days).

Current Status:

Implemented.

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CURRENT YEAR STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2024-02 Timeliness of Posting Journal Entries

Criteria: Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate that a transaction should be reviewed and posted within 30 to 45 days from the date it was prepared and submitted. The review and post should be documented by a reviewer signing and dating that their review has been completed, approved, and the entry is posted.

Condition: During our testing of the controls over the City's journal entry procedures, we noted 18 out of 40 tested were posted considerably late as compared to the underlying activity.

Effect: Journal entries may not be reflected in the correct operating period or fiscal year, when not posted in a timely manner.

Cause: The late review and approval is due to insufficient staffing due to high turnover this year. It was also noted that the journal entries were recorded during bank reconciliations which were severely behind due to staffing levels and training.

Recommendation: The City should determine what actions are necessary to keep the internal controls in place so as to avoid late review and posting in the future.

Current Status:

Implemented.