CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED
JUNE 30, 2023

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For the Year Ended June 30, 2023

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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 as of and for the year ended June 30, 2023, 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.

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. 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

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 Significant Deficiencies. 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.

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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
March 18, 2024

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2023-01 and 2022-01 Timely and Accurate Year-End Close

Criteria: The year-end financial closing and preparation of the general ledger data should be completed timely and accurately. In addition, well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for analysis of account balances and activities.

Condition and Cause: Due to the significant staff transitions and turnover within the Finance Department during the last 2-3 years, particularly in higher level positions, there was a significant strain on the City accounting staff's ability to ensure all account balances were fully analyzed, and closing entries were complete prior to providing the general ledger for the audit. As a result, there were a significant number of post-closing entries after the audit had commenced. During the audit for both years ending June 30, 2022 and 2023, our audit staff and City staff proposed numerous material post-closing journal entries.

Effect: The lack of sufficient resources in accounting caused significant delays in the audit as there were a significant number of post-closing entries, and accounting staff did not have sufficient capacity to review the financial statements timely.

Recommendation: The City should analyze staff resources to determine what plans can or should be made to ensure that the financial data is processed properly and timely during staffing transitions. In addition, the City should develop procedures to ensure that accounts are analyzed throughout the fiscal year and after the year end close to ensure that additional closing entries are not required prior to providing the general ledger for audit, which may require reconsidering the timeline for the audit work to be performed.

Management's Response:

The Finance Department continues to recruit and fill vacant positions in a challenging environment. San Leandro, like other government entities, continues to experience staffing challenges and high vacancy rates. Department turnover and onboarding have significantly impacted the Finance Department's ability to timely and accurately close the year.

The year-end closing processes and checklist are being reevaluated and revised to include more detailed tasks and revised due dates. Internal account analysis is scheduled earlier in the year-end close process and more than once.

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2023-02 Timeliness of Bank Reconciliation

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 reviewed 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 final testing of bank reconciliations, it was noted that the Wells Fargo June 2023 general bank reconciliation did not have documentation of date prepared and was not reviewed until November 16, 2023, which is more than 30-45 days past month end. In addition, it was also noted that the June 30 bank reconciliations for most accounts held with Trustees and Fiscal Agents did not have documentation of the date reviewed, and were not prepared until October 25-26, 2023.

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

Cause: The City had adopted a new online payment system in the first quarter of 2023, which made it difficult to reconcile the merchant deposits to daily activity. The banks reconciliations would be nearly finished, but held until the merchant deposits were determined. The City also faced higher staff turnover this fiscal year 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).

Management's Response:

As of March 2023, the Finance Department has been able to assign and train a dedicated staff person on bank reconciliations. The Finance Department is redoubling its effort to get reconciliations caught up and adhere to a timely process. The Finance Department is working with departments to identify the root cause of online payment system discrepancies as well as addressing recurring issues that delay our ability to finalize the reconciliations, coordinating with departments to remedy wherever possible. Also see response to 2023-01.

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SCHEDULE OF SIGNIFICANT DEFICIENCIES

2023-03 Timeliness Posting of Journal Entries

Criteria: The City should post journal entries in a timely manner, generally within one month of the underlying activity.

Condition: During our testing of the controls over the City's journal entry procedures, we noted 6 out of 40 tested were posted considerably late as compared to the underlying activity.

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

Cause: The City's finance department had high staff turnover this fiscal year.

Recommendation: See recommendation for items #2023-01 and 2022-01 related to making sure there is sufficient staffing to ensure accurate financial data is processed timely.

Management's Response:

The Finance Department is reevaluating its month-end closing check list, analyzing staff resources, and improving processes to ensure the necessary entries needed on a monthly, quarterly, and annual basis are completed in a timely manner. A year end checklist containing all June (month end) and fiscal year closing JE's is process, where each entry is color coded and assigned to the appropriate staff person. This will provide a more detailed overview of the necessary closing entries and a visual indicator of outstanding items. Also see the response to 2023-01.

2023-04 Unrecorded Loans Receivable

Criteria: Loans receivable must be recorded in the City's general ledger when the monies have been disbursed in relation to an executed loan agreement to a third party.

Condition: During our review of the Council meeting minutes, we noted a loan the City made to a third party for land acquisition and new construction of affordable housing in the amount of $1.6 million. However, the loan was not properly recorded as a receivable in the general ledger.

Effect: The City's loan receivable balance recorded in the general ledger was understated. By not recording these loans, there may be a lack of monitoring of loan repayments.

Cause: Staff oversight; lack of communication to Finance regarding the loan.

Recommendation: We recommend that when monies are disbursed for loans, a journal entry should be prepared to record the outstanding receivable in the City's general ledger immediately. Other departments should be reminded to inform Finance of any significant financial transactions that need to be recorded.

Management's Response:

Beginning fiscal year 2023/24 the Finance Department created a quarterly standing meeting with the Community Development Department. The meetings are attended by the accountant responsible for loans receivable and the Community Development Manager, a Housing Specialist and an Administrative Assistant. During this meeting new and existing activities are discussed so that finance can record activity timely and accurately.

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2023-05 Recording of Investment Income and Fair Value Adjustments

Criteria: *GASB Statement No. 31* requires that investments be recorded at fair value.

Condition: The City did not properly record the GASB 31 adjustment at year-end, requiring significant adjustments that impacted all of the City's funds.

Effect: The City's investments were not properly recorded at fair value at year-end.

Cause: Finance staff made an error in recording its fair value adjustment and interest accruals at year-end.

Recommendation: As part of the general ledger closing process, Finance should reconcile its investment and investment income accounts to the investment statements to ensure accuracy.

Management's Response:

The Finance Department has added specific steps to the year-end closing checklist to reconcile investments and investment income to the actual statements to ensure accuracy. This will ensure that GASB 31 adjustment is properly recorded at year end. See responses to 2023-01 and 2023-03.

SCHEDULE OF OTHER MATTERS

2023-06: NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

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

EFFECTIVE FISCAL YEAR 2023/24:

GASB 100 – *Accounting for Changes and Error Corrections*

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2024/25:

GASB 101 – *Compensated Absences*

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

Recognition And Measurement

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

Notes To Financial Statements

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

SCHEDULE OF OTHER MATTERS

GASB 101 – *Compensated Absences, (Continued)*

How the Changes in this Statement Will Improve Financial Reporting

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

GASB 102 – *Certain Risk Disclosures*

State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

SCHEDULE OF OTHER MATTERS

GASB 102 – *Certain Risk Disclosures, (Continued)*

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 that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.