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Staff Report on the Independent Auditor's City of San Leandro Memorandum of Internal Control and Required Communications for the year-ended June 30, 2012

**SUMMARY AND RECOMMENDATIONS**

Staff recommends that the City Council accept the City's Memorandum of Internal Control and Required Communications for the year ended June 30, 2012.

**BACKGROUND**

On March 4, 2013, Council accepted the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. In planning and performing the audit of the financial statements, the City's independent auditors considered the City's internal control over financial reporting (internal control) as a basis for designing the auditing procedures for the purpose of expressing opinions on the financial statements. At the completion of the audit, an unqualified, clean opinion was rendered by Maze & Associates.

**DISCUSSION**

The City's independent auditor completed audits of the City's financial statements, including the Memorandum of Internal Control (MOIC). The audit found no material weaknesses in the internal controls. Maze identified four significant deficiencies. Staff responses are contained in the attached report. The four issues are set forth below.

1. Timeliness of the Preparation of the Comprehensive Annual Financial Report (CAFR) - despite delays, all reporting requirements were met for fiscal year 11-12.
2. Timely Preparation of Bank Reconciliations - reconciliations were sometimes delayed beyond the 30 day performance measure.
3. Shoreline Enterprise Funds Fund Deficit and Advance to the General Fund - the General Fund has advanced more than \$7 million to the Shoreline Fund resulting in a chronic deficit fund balance.
4. Support for Accounts Receivable Advance Payments (General Fund) - contracts in the Engineering Department were missing that would have indicated the deposits made by vendors to the City.

Based on these significant findings, staff has increased its efforts during fiscal year 12-13 to comply with the standards identified by Maze & Associates.

Attached is the MOIC from the City's external auditor which includes constructive recommendations to ensure the City's accounting function is timely, complete and accurate.

**CONCLUSION**

Staff recommends that the City Council accept the City's Memorandum of Internal Control for the year ended June 30, 2012.

**ATTACHMENTS**

- Memorandum of Internal Control for the fiscal year ended June 30, 2012

**PREPARED BY:** David Baum, Finance Director, Finance Department