CITY OF EMERYVILLE
MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2024

This Page Left Intentionally Blank

CITY OF EMERYVILLE
MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2024

Table of Contents

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Emeryville, California

In planning and performing our audit of the basic financial statements of the City of Emeryville (City) as of and for the year ended June 30, 2024, 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 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 and Schedule of Other Matters. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 4, 2024

Accountancy Corporation
3478 Buskirk Avenue, Suite 217
Pleasant Hill, CA 94523

T 925.228.2800
E maze@mazeassociates.com
W mazeassociates.com

This Page Left Intentionally Blank

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2024-01: <u>Pension Related Accounts – Prior Year Recommendation Not Fully Implemented</u>

During the current year audit, we followed up on the status of the Significant Deficiency identified in the Status of Prior Year Significant Deficiency Item 2023-01. We found that the deficiency has been partially addressed as of June 30, 2024. Therefore, it is deemed a current year Significant Deficiency. Details of the deficiency and management's response is listed in the Status of Prior Year Significant Deficiency.

Management's Response:
See Management's Response to Current Year Status for the above deficiency as listed in the Status of Prior Year Significant Deficiency.

2024-02: <u>Year-End Close – Loans Receivable and Capital Assets</u>

Criteria: The City's general ledger and related reconciliations provided for the audit must be complete and accurate in order for the audit to be completed on a timely basis and to ensure accuracy of general ledger account balances and activity.

Condition: During our final audit, we noted that the City's loans receivable reconciliation did not agree to the general ledger at June 30, 2024. Upon further inquiry and investigation, the City had to book two significant journal entries to adjust the loans receivable balance and provide a new loans receivable reconciliation. In addition, we noted that the City was unable to provide the capital assets reconciliations and related journal entries in time for our audit and therefore, those items were not received until after our audit fieldwork.

Effect: The above condition delayed the completion of the close which increases the risk that errors may go undetected by staff and corrections may not be made in a timely manner.

Cause: The new loans receivables were not accurately recorded in a timely matter as the Accountant was new to her position and was still learning her role. The capital assets reconciliations were not completed by the time of the audit fieldwork due to staffing shortages in Finance. The City has not been able to permanently fill the Senior Accountant position.

Recommendation: We recommend that the City establish procedures to ensure that all reconciliations are completed on a timely basis and that the reconciliations match the general ledger before they are provided for the audit.

Management's Response:
Going forward, we expect the Accountant to understand the scope of her responsibilities and to have completed accurate and timely reconciliations which agree to the general ledger. Management may hire temporary staff if needed to help with the capital assets reconciliation; ensuring they are reconciled to the general ledger and provided in time for the audit.

This Page Left Intentionally Blank

SCHEDULE OF OTHER MATTERS

2024-03: Timeliness of Budget Adjustment

Criteria: In the event that a budget adjustment and related approval is required in order for a Department to make a purchase, the Department must ensure that the budget adjustment is approved and made before completing the purchase.

Condition: During our interim audit, we tested twenty-five disbursements for testing and noted one disbursement for which the order of equipment was made with the vendor before a required budget adjustment was approved. Specifically, we noted that the Police Department ordered equipment from a vendor on June 7, 2023. However, the budget adjustment was requested and approved by City Manager to cover the expenses for the products on July 26, 2023.

Cause: Due to staff oversight.

Effect: The Department is not in compliance with the City's budget and purchasing policy related to the budget for purchases of such equipment.

Recommendation: The City must develop procedures to ensure that budget approvals and adjustments are made before purchases are made.

> ***Management's Response:***
> The Finance Department has communicated with all City departments the necessity of complying with the City's purchasing policy. We expect all departments to follow the procedures moving forward.

SCHEDULE OF OTHER MATTERS

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 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.

SCHEDULE OF OTHER MATTERS

GASB 101 – *Compensated Absences (Continued)*

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.

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.

SCHEDULE OF OTHER MATTERS

GASB 102 – *Certain Risk Disclosures (Continued)*

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.

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.

SCHEDULE OF OTHER MATTERS

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.

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.

SCHEDULE OF OTHER MATTERS

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

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.

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCY

2023-01: **Pension Related Accounts and Reconciliations**

Criteria: Any discrepancies between entries in the general ledger and actual payments made to CalPERS for pension related payments should be investigated and addressed timely to determine the accuracy of the benefits payments.

Condition: During our audit, we noted that the City has a process for reconciling payroll related benefits and taxes payable accounts in the general ledger on a quarterly basis. We reviewed two reconciliations for the quarters ended September 30, 2022 and December 31, 2022 and noted that there were unreconciled differences between the general ledger and actual payments made within the PERS payroll liability accounts that had not been resolved.

Cause: We understand that the City's staff turnover has affected the timing of resolving these variances.

Effect: Without a resolution to these variances noted in the PERS payroll liability accounts, the City may by under or over paying the PERS benefits.

Recommendation: We recommend that the City resolve these differences going forward to ensure that the PERS payroll liabilities are recorded and paid accurately.

Current Status: See 2024-01. Partially implemented. During our fiscal year 2024 audit, we noted that the City has established a procedure to review and correct any differences between the general ledger and actual payments made to CalPERS for pension related benefits. However, there is a variance amount in the City's general ledger related to prior periods that has not been settled yet in the amount of $38,440. Our understanding is that the City is working with CalPERS to address and resolve the discrepancy.

> ***Management's Response:***
> The Human Resources (Payroll) Technician will continue to reconcile the accounts on a quarterly basis and identify/research any variances between the general ledger and payments made to CalPERS for pension related benefits. Differences will either be followed-up on with CalPERS, or if needed, the Accountant will record any adjustments to the general ledger on a quarterly basis instead of only at year-end. Staff will follow up with CalPERS regarding the PEPRA contributions of $38,440.

This Page Left Intentionally Blank

STATUS OF PRIOR YEAR OTHER MATTERS

2023-02: Investment Policy Compliance

Criteria: The City's Investment Policy, as well as the California Government Code Section 53601, state that the City's investments in money market mutual funds should not exceed 20% of the City's investment portfolio.

Condition: During our testing of the City's investment portfolio as of December 31, 2022 for compliance with the City's Investment Policy, we noted that the City's investment portfolio included money market mutual funds comprising 24% of the City's total investment portfolio, exceeding the maximum of 20% specified in the City's Investment Policy.

Cause: City staff indicated that they have been aware of the excess investment in money market mutual funds and they have since hired outside investment advisory services to assist them with managing the portfolio and policy.

Effect: The City is not in compliance with the City's Investment Policy or California Government Code Section 53601.

Recommendation: Now that the City has hired outside investment advisory services, we recommend that the City work with the advisors to diversify its investment portfolio to meet the compliance requirements set forth by the current Investment Policy.

Current Status: Implemented.

2022-01: Investment Policy Compliance

Criteria: The City's Investment Policy, as well as the California Government Code Section 53601, state that the City's investments in money market mutual funds should not exceed 20% of the City's investment portfolio and that the Investment Policy must be adopted annually by resolution of the City Council.

Condition: During our testing of the City's investment portfolio as of December 31, 2021 for compliance with the City's Investment Policy, we noted that the City's investment portfolio included money market mutual funds comprising 50% of the City's total investment portfolio, exceeding the maximum of 20% specified in the City's Investment Policy. We also noted that the City did not adopt an Investment Policy during fiscal year 2022.

Cause: City staff indicated that they have been aware of the excess investment in money market mutual funds and they have since hired outside investment advisory services to assist them with managing the portfolio and policy.

Effect: The City is not in compliance with the City's Investment Policy or California Government Code Section 53601.

Recommendation: Now that the City has hired outside investment advisory services, we recommend that the City work with the advisors to diversify its investment portfolio to meet the compliance requirements set forth by the current Investment Policy. Furthermore, we recommend that the City develop a process to ensure that the Investment Policy is adopted annually by City Council.

Current Status: Implemented.

CITY OF EMERYVILLE
MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR OTHER MATTERS

2021-01: Investment Policy Compliance

Criteria: The City's Investment Policy as well as the California Government Code Section 53601 state that the City's investment in money market mutual fund should not exceed 20% of the City's investment portfolio.

Condition: During our examination of the City's investment portfolio as of December 31, 2020 for compliance with the City's Investment Policy, we noted that the City's investment in money market mutual funds comprised 40 percent of the City's total investment portfolio.

Cause: City staff indicated that they had been aware of the excess investment in money market mutual funds. However, they would like to wait to correct it after they hire an outside investment advisory service.

Effect: As of December 31, 2020, the City was not in compliance with the above requirements stated on the City's Investment Policy and the California Government Code.

Recommendation: We recommend the City diversify its investments to meet the above compliance requirements.

Current Status: Implemented.