

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2023**

This Page Left Intentionally Blank

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

For the Year Ended June 30, 2023

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>.....	1
Schedule of Significant Deficiencies.....	3
Schedule of Other Matters	5
Current Status of Prior Year Significant Deficiencies.....	11
Current Status of Prior Year Other Matters.....	17

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Alameda, California

In planning and performing our audit of the basic financial statements of the City 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 and 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.

Maye & Associates

Pleasant Hill, California
February 29, 2024

CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF SIGNIFICANT DEFICIENCIES

2023-01 Recording Accounts Payable at Year End

During the year-end closing process, disbursements subsequent to year end should be analyzed to determine whether they should be accrued as accounts payable as of June 30. As part of that process, the City separates its accounts payable batches during July and August between those that are applicable to the prior fiscal year and those related to the current fiscal year. Disbursements subsequent to August are individually analyzed by City staff to determine if they should be accrued via journal entry.

When we were provided the general ledger for audit, we noted that the balance of accounts payable had significantly declined from the prior year and many funds showed a zero balance. We inquired of City staff and they initially indicated the decline was due to the change in accounting policy that increased the dollar threshold for which invoices would be accrued after year end. However, during our testing of subsequent disbursements for proper treatment as either fiscal year 2023 or fiscal year 2024 transactions, of the nine transactions tested, we noted five that exceeded the City's accrual threshold and related to fiscal year 2023 activity, but were not accrued.

City staff then determined that the accounts payable batch posting process had recorded the transactions that related to June 30, 2023 and prior as a reduction of cash, rather than as accounts payable. The accounts payable batches that should have been recorded as accounts payable totaled to \$6.9 million and a correcting entry was recorded to increase the cash balance and accounts payable balance in various general ledger funds.

When year-end closing entries are not analyzed to ensure they are recorded in the correct general ledger accounts, it could lead to errors and misstatement of the financial statements.

The City should develop procedures to ensure that the year-end accounts payable batch posting process is recorded in the correct general ledger accounts and not recorded as a reduction of cash. In addition, the City should develop a process for analyzing the year-end variances in balance sheet and income statement accounts to ensure the variance reflects the activity that occurred and is not a result of a missed journal entry or a misposting of transactions.

Management's Response:

Agree with finding. Procedures have been put in place during FY 2023-24 to ensure the year-end accounts payable posting process is recorded in the general ledger accounts correctly. The procedure has been added to our year-end control sheet as well.

This Page Left Intentionally Blank

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2023-02 Payroll Calculation Errors

Employee pay should be based on the rates in the current memoranda of understanding and/or personnel action form (PAF).

We selected forty employees for testing of the gross pay calculations to supporting documentation and noted one error in the calculation of an employee's stipend pay for shift relief that resulted in an underpayment of \$58.21. After we alerted City staff to the issue, they researched and noted three other employees with a similar issue/error and determined the full amount of the errors for all affected pay periods and made retroactive payments to the four affected employees totaling \$2,006 in November 2023.

We understand the error was due to payroll staff not adjusting the stipend pay for the new pay rates that were effective on January 1, 2023.

Errors in calculating employee special pays could result in an under- or overpayment of employee pay.

The City should develop procedures to ensure that when pay rate changes are implemented, all related manual payroll calculations are reviewed to ensure they are correct.

Management's Response:

Agree with finding. The City has developed procedures for manually updating pay and deduction codes and has added this task to our bi-weekly payroll checklist.

2023-03 Timely Processing of Terminated Employees

The City should process terminated employees in a timely manner. This includes terminating the employee from both the payroll and general ledger systems upon issuance of their last check, or shortly thereafter.

We selected nineteen terminated employees for testing of proper and timely cutoff in the City's computer system and termination and noted six were not terminated from the payroll system from three months to over a year after their last check date, as follows:

Termination Date	Last Check Date
1/10/2023	9/30/22
3/30/2023	6/28/19
3/30/2023	8/20/21
3/30/2023	2/4/22
4/25/2023	5/27/22
4/25/2023	9/16/22

Employees that are not terminated from the payroll and accounting systems in a timely manner continue to have an "active" status which could lead to unauthorized payroll payments or unintended access to the City's accounting system.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2023-03 Timely Processing of Terminated Employees (Continued)

We understand the employees were part-time seasonal employees and the department did not determine they would be separated from employment until fiscal year 2023.

The City should develop procedures to remove temporary or seasonal employees from the payroll system after their employment ends with the City. If the employees are expected to return, the City should determine if the employee could be deactivated, but not fully removed and only reactivated when the return is confirmed.

Management's Response:

Agree with finding. The City is looking to create procedures to remove temporary or seasonal employees from the payroll system as soon as their employment ends. The Controller and Finance Director will work with the various directors to ensure compliance with such procedures.

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.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 100 – Accounting for Changes and Error Corrections (Continued)

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.

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.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 101 – Compensated Absences (Continued)

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.

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.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 102 – Certain Risk Disclosures (Continued)

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.

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.

This Page Left Intentionally Blank

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2022-01 Prior Year Recommendations Not Yet Implemented

During the current year audit, we followed up on the status of Significant Deficiencies identified on the Status of Prior Year Significant Deficiencies. We found that the following deficiencies had either been partially or not mitigated at June 30, 2022. Therefore, they are deemed to be current year Significant Deficiencies. Details of these deficiencies and associated management's responses are listed in the Status of Prior Year Significant Deficiencies.

- 2019-02(b) Segregation of Duties in Major Control Areas
- 2019-03 Timely Review of Bank Reconciliations
- 2018-01(b) Segregation of Duties in Major Control Areas

Current Status:
Implemented

2021-02 Prior Year Recommendations Not Yet Implemented

During the current year audit, we followed up on the status of Significant Deficiencies identified on the Status of Prior Year Significant Deficiencies. We found that the following deficiencies had either been partially or not mitigated at June 30, 2021. Therefore, they are deemed to be current year Significant Deficiencies. Details of these deficiencies and associated management's responses are listed in the Status of Prior Year Significant Deficiencies.

- 2019-02 Segregation of Duties in Major Control Areas
- 2019-03 Timely Review of Bank Reconciliations
- 2019-04 Timely Preparation and Review of Quarterly Investment Reports
- 2018-01 Segregation of Duties in Major Control Areas

Current Status:
Implemented

2019-02 Segregation of Duties in Major Control Areas

During our review of the City's internal controls for proper segregation of duties and procedures and as noted in prior year Memorandum on Internal Control comment 2018-01, we noted areas in which controls need to be improved and employee's access and/or duties revised. Good internal controls require that employees with access to the City's assets not have access to edit the City's accounting records for the same assets. Inappropriate access could potentially result in undetected errors or unauthorized transactions.

a) Access to Customer Database and Cash Receipts/ Non-Sufficient Funds Checks

City staff that is involved in the cash receipts process should not normally be allowed to have access to make changes to the customer database. And, employees that generate accounts receivable billings should not be involved with the collection of cash receipts or processing of non-sufficient funds checks and ability to adjust the general ledger.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2019-02 Segregation of Duties in Major Control Areas (Continued)

The Finance Supervisor and the Accounting Technician handle cash receipts and have access to the customer database, non-sufficient funds checks and can adjust the general ledger, while it does not appear that changes to the customer database are reviewed. In addition, three Account Clerks that handle cash receipts also have access to the customer database, and the Accounting Technician generates accounts receivable billings.

We understand the Finance Department was understaffed, which resulted in a need to reallocate certain employee duties.

The access to make changes to the customer database should be removed from the Finance Supervisor, the Accounting Technician and the three Account Clerks. In the event the system does not allow such a change, there should be a review and approval of all changes to the customer database on a regular basis to ensure all changes were authorized. In addition, the processing of non-sufficient funds checks should be transferred to an employee that is not involved with both billings and collections and if the Accounting Technician continues to prepare accounts receivable billings, she should not be involved with cash collections.

b) Finance Staff with General Ledger Super User Rights

A system super-user is an individual who has full access over the City's financial system including all modules and all functions. Accounting staff should not normally be allowed to have super-user rights in the City's general ledger system.

We noted that the City's Finance Supervisor has super-user access to the City's general ledger system.

When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other user's abilities to access the different modules in the accounting system. In addition, unauthorized transactions and misstatements may occur without timely detection and correction.

We understand that City staff believes sufficient controls are in place to mitigate the risk.

The City should consider restricting super user rights to as few employees as possible, preferably to those outside of the Finance Department, such as Information Technology personnel, since they are not involved with processing or approving general ledger transactions. Until that is possible, the City should implement mitigating controls such as a review and approval of changes made to the system by the above employee.

City staff must develop procedures to review the City's internal controls to ensure there is proper segregation of duties and that there is documentation of the review and approval of transactions and reconciliations in key control areas. Where internal control conflicts exist, if mitigating controls cannot be put in place to reduce the internal control risk, then either the ability to process the transaction or the access to the asset should be transferred to another appropriate employee.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2019-02 Segregation of Duties in Major Control Areas (Continued)

In response to the prior year comments on the same topic, City staff indicated that it is not feasible to remove or revise super-user and customer database access from all Finance Department staff and that the City has implemented other review and approval internal controls.

Although we agree that the City has other controls in place to mitigate the super-user risk, the City should consider implementing procedures to review/approve any system changes initiated by the Finance Supervisor and the other employees.

Current Status:
Implemented

2019-03 Timely Review of Bank Reconciliations

Bank reconciliations are one of the most important internal controls the City can have, and the bank reconciliation cannot be considered complete until it has been reviewed and approved. To be an effective control, bank reconciliations and the associated review should be completed in their entirety as soon as reasonably possible after each month-end, usually within thirty to forty-five days of the bank statement date. The dates of preparation and performance of review of the monthly Bank Reconciliations should be documented to clearly indicate proper internal controls are in place and the bank reconciliation process was completed timely.

During our review of the January 2019 and March 2019 bank reconciliations for the general checking account, we noted that although the preparer and reviewer signed off on the bank reconciliations, the date of preparation for the January 2019 bank reconciliation is not documented, and the January 2019 and March 2019 bank reconciliations were not reviewed until April 5, 2019 and May 24, 2019, respectively.

By not completing and reviewing the bank reconciliations timely, accounting errors, misstatements and/or unauthorized activities may not be identified or corrected in a timely manner.

We understand the review of the bank reconciliations was delayed due to the Finance Department being understaffed, and the missing review documentation was due to staff oversight.

We did note that the June 2019 bank reconciliations were prepared and reviewed timely, but the City should document the dates of preparation and review on the face of bank reconciliations and the bank reconciliation process should be completed within 30 to 45 days of month end throughout the fiscal year.

Update for June 30, 2020:

During our review of the January 2020 and March 2020 bank reconciliations, we noted that the reconciliations were not prepared and reviewed until May 2020 and June 2020, respectively. Although we did note that the June 2020 bank reconciliations were prepared and reviewed timely in August 2020, the City should develop procedures to ensure the bank reconciliation process should be completed within 30 to 45 days of month end throughout the fiscal year.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2019-03 Timely Review of Bank Reconciliations (Continued)

Update for June 30, 2021:

During our review of the November 2020 General Checking account bank reconciliation, we noted that the preparer and reviewer signed off on the reconciliations, by evidence of the employee's initials. However, the preparation and review were not completed until February 1, 2021, and February 3, 2021, respectively.

We did note that the March 2021 and June 2021 bank reconciliations were prepared and reviewed timely, however due to staff turnover, some tasks during the fiscal year were delayed.

Update for June 30, 2022:

During our review of the January 2022 bank reconciliations, we noted that the preparer and reviewer signed off on the reconciliations, by evidence of the employee's initials. However, the preparation and review were not completed until April 20, 2022, and May 3/4, 2022, respectively.

We did note that the June 2022 bank reconciliations were prepared and reviewed in early August 2022, however we understand that due to staff turnover and a consultant hired to help that was later unable to provide the service, some tasks during the fiscal year were delayed.

Update for June 30, 2023:

During our review of the March, April and June 2023 general checking bank reconciliations, we noted that all were completed within 30-45 days of month end. During our review of all of the City's other June 2023 bank reconciliations, we noted all were completed within 30-45 days of month end, except for only the Alameda Point Housing reconciliation, which was prepared on August 30, 2023 and reviewed on September 6, 2023, and the Tidelands Trust Property and Alameda Point Commercial account reconciliations which were prepared and reviewed in early September.

Current Status:

Implemented

2018-01 Segregation of Duties in Major Control Areas

During our review of the City's internal controls for proper segregation of duties and procedures, we noted areas in which controls need to be improved and employee's access and/or duties revised. Good internal controls require that employees with access to the City's assets not have access to the City's accounting records for the same assets. Inappropriate access could potentially result in undetected errors.

a) Access to Customer Database and Cash Receipts/ Non-Sufficient Funds Checks

City staff that is involved in the cash receipts process should not normally be allowed to have access to make changes to the customer database. And, employees that generate accounts receivable billings should not be involved with the collection of cash receipts or processing of non-sufficient funds checks and ability to adjust the general ledger.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2018-01 Segregation of Duties in Major Control Areas (Continued)

The Finance Supervisor and the Accounting Technician handle cash receipts and have access to the customer database, non-sufficient funds checks and can adjust the general ledger, while it does not appear that changes to the customer database are reviewed. And, the Accounting Technician generates accounts receivable billings.

We understand the Finance Department was understaffed, which resulted in a need to reallocate certain employee duties.

The access to make changes to the customer database should be removed from the Finance Supervisor and the Accounting Technician and in the event the system does not allow such a change, there should be a review and approval of all changes to the customer database on a regular basis to ensure all changes were authorized. In addition, the processing of non-sufficient funds checks should be transferred to an employee that is not involved with both billings and collections and if the Accounting Technician continues to prepare accounts receivable billings, she should not be involved with cash collections.

b) Finance Staff with General Ledger Super User Rights

A system super-user is an individual who has full access over the City's financial system including all modules and all functions. Accounting staff should not normally be allowed to have super-user rights in the City's general ledger system.

We noted that the City's Finance Supervisor has super-user access to the City's general ledger system.

When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other user's abilities to access the different modules in the accounting system. In addition, unauthorized transactions and misstatements may occur without timely detection and correction.

We understand that City staff believes sufficient controls are in place to mitigate the risk.

The City should consider restricting super user rights to as few employees as possible, preferably to those outside of the Finance Department, such as Information Technology personnel, since they are not involved with processing or approving general ledger transactions. Until that is possible, the City should implement mitigating controls such as a review and approval of changes made to the system by the above employee.

City staff must develop procedures to review the City's internal controls to ensure there is proper segregation of duties and that there is documentation of the review and approval of transactions and reconciliations in key control areas. Where internal control conflicts exist, if mitigating controls cannot be put in place to reduce the internal control risk, then either the ability to process the transaction or the access to the asset should be transferred to another appropriate employee.

Current Status:

See comment 2019-02.

This Page Left Intentionally Blank

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2022-02 Purchasing Policy Compliance and Clarification of Requirements

The City's Purchase Order Procedures require the use of a purchase order for all single purchases of materials and supplies of \$4,000 or more, and the City's Purchasing Policy requires the use of formal bids for materials and supplies over \$25,000. In addition, the Purchase Order Procedures indicate that smaller purchases from a single vendor that total \$4,000 or more during the fiscal year should use a blanket or master Purchase Order.

We selected 25 disbursements of testing to supporting documentation and compliance with the City's purchasing policy and noted the following:

- One disbursement for \$10,580 for grounds maintenance supplies did not have a purchase order, because it was comprised of individual invoices that were less than the \$4,000 threshold. included 18 vendor invoices that were less than the purchase order threshold. However, we noted that the City uses this vendor throughout the year and disbursements to the vendor during fiscal year 2022 totaled \$56,898.

We understand that City staff considers the individual purchases from the vendor as separate items and therefore not subject to the requirement of a purchase order.

- One disbursement for \$38,588 for vehicle fuel costs was not accompanied by a contract.

We understand the City had a contract with the vendor that expired in June 2012 and a new contract has not been executed, because certain City staff consider the fuel to be a utility cost, which is not subject to the contract requirement.

The City's Purchasing Policy does not appear to define utilities, but the Purchase Order Procedures does indicate that "Utilities expenditures such as water, power and telecommunication services" do not require the use of a Purchase Order. Although the Purchasing Policy does indicate utilities are an "Essential Service" and exempt from the contract requirements, fuel does not appear to be considered a utility as defined in the Purchase Order Procedures.

It appears that the City should have used a purchase order and/or contract for both of these vendors, and did not obtain a formal bid for the fuel vendor, and therefore, the transactions are not in compliance with the City's Purchase Order Procedures and Purchasing Policy.

The City should ensure that purchase orders and/or contracts are in place for vendors that meet the thresholds in the Purchase Order Procedures and Purchasing Policy and formal bids are obtained for applicable purchases. The City should also develop a procedure to review the services throughout the year for the same vendor rather than just looking at one individual invoice to determine if a purchase order or contract should be in place.

Finally, if the City does consider vehicle fuel purchases to be a utility or essential service, the definition should be clarified in the Purchasing Policy.

Current Status:

Agree with finding. For the first item, the new ERP system has helped us track when vendors reach the \$4,000 threshold. For the second item, City staff is currently in the process of reviewing the purchasing policy and determining our stance on the matter. We agree the City must ensure purchase orders and contracts are in place for vendors that meet these criteria.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2022-03 Timely Vendor Payments

Vendor payments should be processed timely upon receipt of the vendor invoice.

During our testing of 25 City-wide disbursements and 25 disbursements from the Base Reuse Fund, we noted 5 invoices that were paid over 45 days after receipt and two of those showed that a prior balance was unpaid at the time of the invoice we'd selected for testing.

We understand that the invoice processing and payment process was delayed due to the implementation of the new general ledger system in October 2021. In addition, we understand one of the Base Reuse invoices was paid late, because it had been mailed to an employee that was on leave.

Update for June 30, 2023:

During our testing of disbursements related to the Measures B, BB and F programs, we noted three invoices that were paid over 90 days after receipt.

We understand the delay in payments was due to the time it took the department staff to reconcile and inventory the work performed by the vendors.

When the City does not pay its bills timely, not only does it run the risk of incurring late payment penalties, it means transactions may not be reflected in the correct period in the general ledger.

The City should develop procedures to ensure that vendor invoices are paid timely throughout the fiscal year.

Current Status:

Agree with finding. During the beginning months of Fiscal Year 2022, City staff was hard at work implementing our new ERP system. While this caused slight delays in some invoice processing, staff had caught up during Q3 of Fiscal Year 2022. Finance continues to educate other departments on the importance of timely and accurate invoice entry. If an invoice is under dispute, Finance will continue to urge other departments to document and communicate its status regularly to Finance.

2022-04 Annual Adjustment of the Sewer PILOT

The Sewer Enterprise Fund makes an annual Payment in Lieu of Taxes (PILOT) that is supposed to be adjusted each fiscal year.

We noted that the PILOT for fiscal year 2022 was identical to that in 2021 and we understand it was due to a recurring charge not being updated in fiscal year 2022. As a result, the PILOT was understated by \$14 thousand.

City staff should develop procedures to ensure that annual charges that should be increased are adjusted each fiscal year.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2022-04 Annual Adjustment of the Sewer PILOT (Continued)

Update for June 30, 2023:

Historically, when the PILOT is adjusted, we understand City staff used the April Consumer Price Index factor “CPI-U 2 month and 12 month percent changes” reported by Bureau of Labor Statistics of the Department of Labor due to the timing of the City’s budget process. However, we noted the April CPI factor for 2022 was 5.0%, but the PILOT for fiscal year 2023 was adjusted by 3.08%. We understand the difference was due to the timing of the calculation during the fiscal year 2023 budget process and the use of certain forecasted amounts.

City staff should develop a procedure to ensure that the annual charges are adjusted consistently from year to year using the CPI factor from the same period.

Current Status:

Agree with finding. Department of Finance has set up procedures for preparing this annual charge and has added this to our year-end control sheet.

2019-05 Timely Posting of Journal Entries

As noted above and in prior year Memorandum on Internal Control comment 2018-05, journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate the journal entries should be posted within a timely manner that is usually within 35 to 45 days.

We selected forty journal entries for testing of supporting documentation and timely posting and noted three were not posted timely as follows:

1. A journal entry with an effective date in December 2018 was not posted until April 2019
2. A journal entry with an effective date in January 2019 was not posted until April 2019
3. A journal entry with an effective date in March 2019 was not posted until May 2019

We understand the delays were due to the following:

- #1 – The public works department did not provide the supporting documentation needed to prepare the journal entry to finance timely.
- #2 and #3 – Bank reconciliation review was not performed in a timely manner as discussed in comment 2019-03, which delayed the posting of the journal entries.

The delay in posting journal entries could potentially affect the timeliness of all aspects of accounting and financial reporting. In addition, year-end entries may not be recorded to the correct accounting period in a timely manner.

The City should remind departments of the importance of providing information to the Finance Department timely and bank reconciliations should be prepared, reviewed and approved in a timely manner to ensure associated journal entries are posted timely. The City should develop processes and procedures to ensure journal entries are prepared, reviewed and posted within 30 to 45 days after the period date for which the journal entry is to be recorded.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2019-05 Timely Posting of Journal Entries (Continued)

Update for June 30, 2020:

We again selected forty journal entries for testing of supporting documentation and timely posting and noted ten were not posted timely as follows:

1. A journal entry with an effective date in August 2019 was not posted until October 2019
2. A journal entry with an effective date in August 2019 was not posted until December 2019
3. A journal entry with an effective date in September 2019 was not posted until February 2020
4. A journal entry with an effective date in September 2019 was not posted until March 2020
5. A journal entry with an effective date in October 2019 was not posted until February 2020
6. Two journal entries with an effective date in October 2019 were not posted until March 2020
7. Two journal entries with an effective date in November 2019 were not posted until March 2020
8. A journal entry with an effective date in December 2019 was not posted until March 2020

We understand these journal entries are entries related to transactions discovered during the bank and investment reconciliation processes, which were delayed due to staff turnover and limited available staff.

Update for June 30, 2021:

We again selected forty journal entries and noted five were not posted timely as follows:

1. JE 1021 with a transaction date in July 2020 was not posted until October 2020.
2. JE 1024 with a transaction date in July 2020 was not posted until November 2020.
3. JE 2019 with a transaction date in August 2020 was not posted until November 2020.
4. JE 2021 with a transaction date in August 2020 was not posted until November 2020.
5. JE 2022 with a transaction date in August 2020 was not posted until November 2020.

We understand these journal entries are entries related to transactions discovered during the bank and investment reconciliation processes, which were delayed due to staff turnover and limited available staff.

Update for June 30, 2022:

We again selected forty journal entries and noted seventeen were not posted timely, with delays ranging from two to eight months.

We understand these journal entries were delayed due to the implementation of the new general ledger system and the workflow notification not working. The workflow component of the general ledger system electronically sends transactions to reviewers when they are ready for review and approval.

Update for June 30, 2023:

We again selected forty journal entries for testing and noted one journal entry to record engineering charges for October 2022 was not posted until January 2023.

We understand the delay in posting the engineering activity was due to the length of time it took the Public Works department staff to manually reconcile activity in the project system prior to preparing the journal entry. We also understand the City anticipates implementing a new time system to streamline the process in the future.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2019-05 Timely Posting of Journal Entries (Continued)

Although our testing noted a significant improvement in the timing of the journal entry postings, the delay in posting journal entries could potentially affect the timeliness of all aspects of accounting and financial reporting. In addition, year-end entries may not be recorded to the correct accounting period in a timely manner.

The City should develop processes and procedures to ensure journal entries are prepared, reviewed and posted within 30 to 45 days after the period date for which the journal entry is to be recorded.

Current Status:

Agree with finding. The City has made great strides in its timeliness of posting journal entries with our new ERP software. The Department of Finance is working with Public Works to streamline this particular fiscal year 2022-23 journal entry regarding engineering charges as it is an arduous, manual process.

2018-05 Timely Posting of Journal Entries

Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. Prudent internal control concepts dictate that journal entries should be posted within a timely manner that is within 30 to 45 days after the period date for which the journal entry is intended to record.

We selected forty journal entries and noted two that were not posted timely.

- One journal entry was to record fuel charges for the month of December 2017. The journal entry was prepared on March 1, 2018 and posted on March 29, 2018.
- One journal entry posted in June 2018 was to record Engineering Charges for the month of March 2018.

We understand the Finance department was heavily involved in preparing budget reports during the month of December 2017, coupled with a shortage in department staff, that caused the delay in posting the fuel charge journal entry. As for the delay in posting the Engineering Charges activity was due to the Engineering department's project time (billable time) not being integrated with the general ledger system. As a result, City staff has to manually enter all transactions, which can be a tedious and time consuming process.

The delay in posting journal entries could potentially affect the timeliness of all aspects of accounting and financial reporting.

The City should develop procedures to ensure that all journal entries are prepared, reviewed and posted within 30 to 45 days after the period date for which the journal entry is to be recorded, including Engineering Department's time billing.

Current Status:

See comment 2019-05

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2018-06 Develop a Review Process for Deposits Payable

To ensure that deposits payable balances are accurate, deposit payable details should be reviewed on a regular basis, such as monthly or quarterly.

We selected forty journal entries for testing and noted one was for the reclassification of a Business Improvement Area deposit that was collected in August 2017 and paid out in September 2017. The deposit payable remained in the deposit account, because the disbursement was coded to an expense account and the error was identified and corrected in December 2017.

We understand the City does not have a procedure in place to review Business Improvement Area deposits to ensure that payment activity is reconciled to the deposits payable activity. Lack of review could result inaccurate accounting for the deposits payable balances.

The City should develop a review process for the Business Improvement Area deposits payable to ensure all balances are outstanding and were not refunded in a prior period.

Current Status:

The City agrees that we should develop a process for the Business Improvement Area (BIA) deposits payable to ensure that all balances are outstanding and were not refunded in a prior period. The BIA deposit account holds the fees collected with the business licenses for the Park Street Business Association and the Webster Street Business Association. Currently a remittance is done to the associations for their fees on a quarterly basis and reconciled before the year-end close.

2018-08 Review of Service Organization Reports

The City has several independent contractors which process transactions for various City activities including fiscal agent cash, investments, ambulance billing services, parking citations and others. The City should review the Statements on Standards for Attestation Engagements #16 (SSAE 16) reports from their service organizations.

City staff does not currently request and review SSAE 16 reports from the service organizations to ensure that findings are addressed by the entities and such findings do not involve or affect the City's transactions.

The procedures used by these service organizations are outside the scope of City oversight and staff review, nor are these controls part of the scope of an audit of the City's financial statements. Typically, cities may employ a variety of approaches to gain comfort that service organizations are performing their functions in a prudent manner and producing reliable data. For example, trust departments manage funds held pursuant to debt indentures, but cities rarely have audits performed as City staff review transactions and verify the trust data. Less frequently, special audits are performed to determine adequacy of controls and to verify the data produced. There is a third option which is to request a review and report on internal controls pursuant to the requirements of Statements on Standards for Attestation Engagements #16.

We understand that City staff was unaware that SSAE 16 reports were available for review and should be requested and reviewed on an annual basis.

**CITY OF ALAMEDA
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR
OTHER MATTERS**

2018-08 Review of Service Organization Reports (Continued)

The City should request a SSAE 16 report from its independent contractors. Any weaknesses or system problems disclosed by that audit should be addressed and resolved by the contractor to the satisfaction of the City.

Current Status:

Agree with finding. SSAE 16 reports were requested from the identified service organizations. Finance reviewed those which were received. We are currently reviewing options for discipline for those service organizations which do not submit SSAE 16 reports.

This Page Left Intentionally Blank