

CITY OF WEST SACRAMENTO, CALIFORNIA

SINGLE AUDIT

Year ended June 30, 2022

CITY OF WEST SACRAMENTO, CALIFORNIA

SINGLE AUDIT
Year ended June 30, 2022

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of City Council
City of West Sacramento, California
West Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of West Sacramento, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated March 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of West Sacramento 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 City of West Sacramento internal control. Accordingly, we do not express an opinion on the effectiveness of City of West Sacramento internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2022-001 that we consider to be a material weakness.

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of West Sacramento's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of West Sacramento's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City of West Sacramento's response to the finding identified in our audit and described in the accompanying *Schedule of Findings and Questioned Costs*. The City of West Sacramento'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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Sacramento, California
March 31, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of City Council
City of West Sacramento, California
West Sacramento, California

Report on Compliance for Major Federal Program

Opinion on Major Federal Program

We have audited City of West Sacramento's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on City of West Sacramento's major federal program for the year ended June 30, 2022. City of West Sacramento's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of West Sacramento complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of West Sacramento and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of City of West Sacramento's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to City of West Sacramento's federal programs.

(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of West Sacramento's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of West Sacramento's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of West Sacramento's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of City of West Sacramento's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of West Sacramento's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of West Sacramento as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise City of West Sacramento's basic financial statements. We issued our report thereon dated March 31, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Crowe LLP

Sacramento, California
March 31, 2023

CITY OF WEST SACRAMENTO, CALIFORNIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2022

<u>Federal Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
<i>Direct Program</i>			
E & F Street Improvements	14.218	*	\$ <u>104,884</u>
<i>Passed-through the State of California Department of Housing and Urban Development</i>			
Community Development Block Grants/State Program			
CDBG Use of Program Income	14.228	*	72,218
Home-Revolving PI - Multi Year Home Grants	14.239	*	42,737
Emergency Solutions Grant - Pisor Fence	14.231	*	150,196
Emergency Solutions Grant - Electrical work	14.231	*	<u>1,550</u>
Total U.S. Department of Housing and Urban Development			<u>266,701</u>
<u>U.S. Department of Justice</u>			
<i>Direct Programs:</i>			
West Sacramento COVID-19 Response Funding	16.034	*	1,439
Bulletproof Vest Partnership Program	16.607	*	<u>3,432</u>
Total U.S. Department of Justice			<u>4,871</u>
<u>U.S. Department of Transportation, Federal Highway Administration</u>			
<i>Passed-through the State of California Business, Transportation and Housing Agency</i>			
Highway Planning and Construction Cluster:			
Sycamore Park U.S. 50 Connecting Phase 2	20.205	CML-5447(044)	83,462
West Cap/Harbor/Jefferson Road Rehab	20.205	HSIPSTPL-5007(042)	4,551,719
Inclusive TDM Strategy	20.205	SA1819106	28,655
Median Installation	20.205	HSIPSTPL-5447(047)	21,049
Traffic Signal Improvement	20.205	HSIPSTPL-5447(048)	49,905
Safety Feature Installation	20.205	HSIPSTPL-5447(049)	41,081
Intersection Improvement	20.205	HSIPSTPL-5447(050)	17,548
North Riverwalk Park	20.205	STPCML-5447(051)	105,088
Riverfront Street Extension	20.205	STPL-5447(045)	2,000
Sacramento Ave Corridor	20.205	STPLNI-5447(052)	<u>1,360</u>
Subtotal Highway Planning and Construction Cluster			<u>4,901,867</u>

(Continued)

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

<u>Federal Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation, Federal Highway Administration (continued)</u>			
<i>Passed-through the State of California, Office of Traffic Safety</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	PT22105	\$ 16,460
State and Community Highway Safety	20.600	PT21078	8,906
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT22105	17,572
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT21078	<u>8,005</u>
Total U.S. Department of Transportation			<u>50,943</u>
<u>U.S Department of Treasury</u>			
<i>Passed-through Yolo County</i>			
Coronavirus Relief Fund	21.019	*	76,228
Coronavirus State and Local Fiscal Recovery Funds - Wastewater Arrearages Program	21.027	*	<u>152,326</u>
Total U.S. Department of Treasury			<u>228,554</u>
<u>U.S. Environmental Protection Agency</u>			
<i>Direct Program</i>			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	*	<u>12,010</u>
<u>U.S. Department of Homeland Security</u>			
<i>Direct Program</i>			
FEMA 4472DR-CA California COVID 19 Pandemic	97.036	*	<u>669,292</u>
<u>U.S. Department of Department of Homeland Security</u>			
<i>Direct Program</i>			
Homeland Security:			
Yolo HSGP 2019 FD CERT	97.067	*	6,214
Yolo HSGP 2020 PD Camera Trailer	97.067	*	7,637
UASI HSGP 2019 PD Special Event Barriers	97.067	G11016919	214,968
UASI HSGP 2019 PD Bomb Suits	97.067	G11016919	38,226
UASI 2019 FD SEEK Cameras	97.067	G11016919	<u>18,995</u>
Homeland Security Cluster			<u>286,040</u>
Total expenditures of federal awards			<u>\$ 6,525,162</u>

* No pass-through number was provided by the pass-through entity.

See accompanying notes to schedule of expenditures of federal awards.

CITY OF WEST SACRAMENTO, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of West Sacramento (the City) under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the City's operations, it is not intended to be and does not present the financial position, changes in financial position, or cash flows of the City.

Expenses reported on the Schedule of enterprise funds are reported on the accrual basis and expenditures of governmental funds are reported on the modified accrual basis of accounting. Such expenses/expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenses are not allowable or are limited as a reimbursement.

Loan program expenditures represent loans disbursed during the period. City of West Sacramento has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

The City applied an Indirect Cost Allocation Plan (ICAP) rate approved by the California State Transportation Agency, Department of Transportation (CalTrans) to AL 20.205. The ICAP during the year ended June 30, 2022 included an ICAP rate of 98.85% and a fringe benefit rate of 42.58% of total direct salaries and wages. Indirect costs were applied only to the Highway Planning and Construction Cluster.

NOTE 2 –SUBRECIPIENTS

There were no subrecipients of the City's programs during the year ended June 30, 2022.

NOTE 3 – LOAN PROGRAMS

The outstanding balances of loan programs were as follows:

<u>Federal Program</u>	<u>AL Number</u>	<u>Outstanding Loan Balance</u>
Community Development Block Grant	14.228	\$ 7,597,783
Home Investment Partnerships Program	14.239	\$ 3,924,214

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

Yes No

Significant deficiencies identified not considered to be material weaknesses?

Yes None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major federal programs:

AL Number

20.205

Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

CURRENT YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

2022-001 MATERIAL WEAKNESS – FINANCIAL REPORTING

Criteria:

An essential aspect of any City's internal control over its financial reporting process is the ability to produce accurate financial data in accordance with generally accepted accounting principles (GAAP). Accurate financial reporting enables management and the City Council to have a sound financial basis for decision making.

Condition:

We noted the following conditions related to the City's controls over financial reporting:

- Pension Liabilities and Related Deferred Outflows and Inflows of Resources: For the Enterprise Funds - Per inspection of the city's GASB Statement No. 68 entries, it was noted the City had several errors in the spreadsheet causing journal entries calculated to be incorrect, resulting in errors in the Net Pension Liability balances in the Sewer Fund and the Water Fund.

For both Business-Type and Governmental Activities, amounts were incorrectly entered into the Pension deferred inflow/outflow of resources spreadsheet by City staff as positive numbers causing material misstatements in the deferred inflows and deferred outflow of resources balances related to pension as of June 30, 2022.

- Other Postemployment Benefits (OPEB) Disclosures - For both Business-Type and Governmental Activities, there were inconsistencies noted in the OPEB Actuarial report provided by the actuary that reported two different fiduciary net positions and two different OPEB liability balances. City staff in their review of the actuary report did not identify these inconsistencies existed prior to preparing related reporting disclosures.
- Port Fund Service Concession Arrangements – The Service Concession Liability and related deferred inflow of resources were improperly stated due to City staff's errors in updating the calculation worksheet.
- Successor Agency's closing debt entries – The current year amortization of the deferred outflows of resources related to debt refunding and the bond premium were not accurately reported in the City's trial balance. The current year impact on these balances were identified during the audit of these balances.
- GASB Statement No. 87 *Leases* – Issuance of leases was not properly recorded on the fund level. Adjustments to ensure proper classification and reporting were made in the amount of \$2,661,037.
- Due to other funds/Due from other funds – These offsetting balances on the governmental fund level were not in balance in the provided trial balance due to a clerical coding error to an improper object code. \$213,177 was reclassified in the Non-major fund, Transit Fund, from Due to other funds to Due to Other Governments.

(Continued)

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

CURRENT YEAR FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2022-001 MATERIAL WEAKNESS – FINANCIAL REPORTING (Continued)

Condition: (Continued)

- Capital Outlay – During our testing of the capital outlay expenditures in the City Capital Projects Fund, it was identified that a \$6.9 million reclassification of capital expenditures was improperly presented in the current year under audit. The reversal of the improper reclassification has been adjusted and properly presented in the current year financial statement.
- Financial Reporting and Close Process - Over the course of the audit process, there were a significant number of correcting journal entries provided to the auditors by the City after the trial balance was provided to us to audit. Some journal entries were reclassifications, however, a number of the entries were corrections to the June 30, 2022 balances reported to us to audit due to subsequent reviews performed by City staff or as a result of differences identified through the audit process. The timing, number and magnitude of these correcting entries indicates that the City's internal controls over financial reporting were not designed or operating effectively to prevent, detect and correct misstatements on a timely basis.

Portions of this is a repeat finding of 2021-001 and 2021-002.

Cause:

The City's closing process did not ensure that all transactions were recorded timely and accurately.

Effect:

The following adjusting entries were posted to the financials to properly state the financial statement balances:

- Governmental Activities –
 - reduction of Deferred Outflows of Resources – Pension in the amount of \$697,172
 - increase of Deferred Inflows of Resources – Pension in the amount of \$59,469,190
 - increase of pension expense in the amount of \$60,166,362
 - There was an adjustment to decrease the fiduciary net position and the net OPEB asset by \$416,980, respectively, in the OPEB footnote disclosures.
 - Governmental Funds
 - General Fund –
 - reduction of Equipment expense in the amount of \$1,757,037
 - increase in Financing sources – Issuance of Leases in the amount of \$1,757,037
 - City Capital Projects Fund –
 - increase in General Government Expense in the amount of \$6,934,975
 - reduction of Capital outlay expense in the amount of \$6,934,975
 - Non-Major Funds –
 - reduction of Equipment expense in the amount of \$904,000
 - increase in Financing sources – Issuance of Leases in the amount of \$904,000
 - reduction in Due to Other Funds in the amount of \$213,177
 - increase in Due to Other Governments in the amount of \$213,177

(Continued)

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

CURRENT YEAR FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2022-001 MATERIAL WEAKNESS – FINANCIAL REPORTING (Continued)

Effect: (Continued)

- Business-Type Activities –
 - Sewer Fund
 - reduction of Deferred Outflows of Resources – Pension in the amount of \$6,398
 - increase of Pension Liabilities in the amount of \$532,094
 - increase of Deferred Inflows of Resources – Pension in the amount of \$768,284
 - increase of pension expense in the amount of \$1,306,776
 - Water Fund
 - increase of Deferred Outflows of Resources – Pension in the amount of \$6,399
 - reduction of Pension Liabilities in the amount of \$532,094
 - increase of Deferred Inflows of Resources – Pension in the amount of \$376,436
 - decrease of pension expense in the amount of \$162,057
 - Port Fund
 - reduction in Other Liabilities in the amount of \$426,246
 - increase of Deferred Inflows of Resources – Service Concession Arrangement in the amount of \$417,918
 - increase of Deferred Inflows of Resources – Pension in the amount of \$150,928
 - increase of pension expense in the amount of \$150,928
 - increase in Accounts Payable in the amount of \$28,000
 - increase Capital Improvements Program Expenses in the amount of \$28,000
- Fiduciary Activities –
 - Successor Agency to the Redevelopment Agency Fund
 - reduction of Deferred Outflows of Resources – refunding debt in the amount of \$89,256
 - reduction of Unamortized Premium in the amount of \$180,860
 - increase of Net Position in the amount of \$91,604

Recommendation:

We recommend the City evaluate the current internal control procedures over financial closing and reporting to ensure financial balances reported in their trial balance are concluded on timely and accurately. This includes a review of all closing entries to ensure transactions are posted in the correct financial direction, to the proper fund, object and account. We also recommend the City seek training for City Finance personnel to better understand governmental accounting concepts and new and emerging accounting topics.

(Continued)

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

CURRENT YEAR FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2022-001 MATERIAL WEAKNESS – FINANCIAL REPORTING (Continued)

Views of Responsible Officials and Planned Corrective Action:

The City Finance Department has internal controls in place to prevent these financial closing and reporting issues. Unfortunately, those procedures did not work for the period being audited due to significant issues experienced during the 2021/22 fiscal year, including vacancies (33%) of key staff members including a 50% vacancy for the accounting and audit division, staff assuming new roles and responsibilities in the Finance Department without sufficient training/experience, implementation of a significant ERP upgrade, laborious FEMA claims related to the COVID-19 pandemic, and implementations of new and complex GASB pronouncements. Changes found by the City after the trial balance was provided to the auditors are simply an issue of scheduling, and not having the books fully closed before the trial balance was provided, again, due to the reasons provided above.

Finance staff will continue to spend the next fiscal year documenting policies and procedures as well as following existing internal controls to ensure financial closing entries and reporting are timely and accurate. This includes implementing a monthly close and regular reconciliations throughout the fiscal year to ensure we are better prepared for audit fieldwork, regardless of what other issues are impacting staff's availability and capacity at and after fiscal year end. Training of Finance staff will be prioritized, including training for new supervisors and employees who are ultimately the control for various accounting procedures (approvers) to provide continued growth in the governmental accounting concepts and new and emerging accounting topics as well as to ensure approvers are fully prepared to provide the control over processes they have been assigned. In addition, management staff in the Finance department will provide on-site training, duplicate reviews, and mentorship to allow for continued growth in the finance and accounting staff to better ensure staff is able to provide accurate entries and appropriate controls over those entries during the approval process.

CITY OF WEST SACRAMENTO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None were reported.

CITY OF WEST SACRAMENTO, CALIFORNIA
SUMMARY OF PRIOR YEAR FINDINGS
Year ended June 30, 2022

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001 MATERIAL WEAKNESS – REFUNDING DEBT ENTRIES

Condition:

During our review of the bond schedules for the Water Fund, it was noted there were errors in the posted entries for Deferred Amount on Refunding of Debt in where the ending balance was posted instead of the current year change resulting in an overstatement of the account balance. Additionally, due to the issuance of a refunding bond in the current year, the Unamortized Bond Premium of the debt being refunded was not properly written off from the general ledger resulting in an overstatement of the account balance.

Recommendation:

We recommend ensuring controls are in place over the posting of debt entries and the rolling of the debt workbooks to include a secondary independent review.

Current Status: Not implemented. See current year finding 2022-001.

Responsible Officials Explanation if Not Implemented:

The Water refunding that took place in FY 2020/21 was a unique structure, called a Cinderella Structure, whereby only some of the debt was immediately callable, and other bonds were callable in a future fiscal year. As such, only a portion of the refunding is tax exempt, and the remaining amounts are taxable and will be converted to tax exempt once those bonds are callable. The City's finance team, including a team of consultants, developed this structure with the proposing bank to accommodate the refinance for significant savings prior to the date when all bonds were callable. As such, no City staff had ever posted a journal entry for this type of uniquely structured refunding. The debt entry was reviewed by multiple accountants, the Finance Manager, and the Finance Director, more than following the internal controls and procedures in place for the City. Because of the unique nature of this refunding, the entry was complicated and evidently even with multiple reviews was not properly posted.

Management staff will continue to monitor records to ensure proper recording of these accounts in its financial statements. For rare transactions, including more complicated debt refinancings like this one, management staff in the Finance Department will coordinate with auditors and/or other financial experts during the posting of the transaction to be sure all appropriate entries are made and reviewed appropriately before posting to the general ledger. In addition, continual training of Finance staff will be prioritized, including training for new supervisors and employees who are ultimately the control for various accounting procedures (approvers) to provide continued growth in the governmental accounting concepts and new and emerging accounting topics as well as to ensure approvers are fully prepared to provide the control over processes they have been assigned.

(Continued)

CITY OF WEST SACRAMENTO, CALIFORNIA
SUMMARY OF PRIOR YEAR FINDINGS
Year ended June 30, 2022

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2021-002 MATERIAL WEAKNESS – USER SERVICE CHARGE ACCRUALS – ENTERPRISE FUNDS

Condition:

During our inquiries around the Enterprise Fund User Service Charges analytics as well as the Search for Unrecorded Liabilities procedures in the Enterprise Funds, it was identified that the year-end accruals for the final month of the year were not posted in the Sewer, Water and Refuse funds. On February 23, 2022, the City recorded an adjusting journal entry posted June 30, 2022 to correct the missed accruals.

Recommendation:

We recommend the process to identify and record the amounts due at each period end for services rendered be enhanced to allow for more timely and accurate reporting at year-end.

Current Status: Not implemented. See current year finding 2022-001.

Responsible Officials Explanation if Not Implemented:

During fiscal year 2020/21, the City experienced turnover of key staff members in the Finance Department. The accrual of the utility user service charges was discovered by City staff during an analysis of our revenues but unfortunately the discovery was untimely, occurring after the trial balance was provided to the auditors. To prevent this error in the future, this entry has been added to our annual journal entry list and assigned to the appropriate staff for processing. While this finding remains open due to the number of issues found during the fiscal year 2021/22 audit, this issue has been corrected as intended and was not a continuing issue in the current audit period as the journal entry was added to the annual JE list and posted appropriately prior to providing the trial balance to the auditors.