

CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED
JUNE 30, 2022

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**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

For the Year Ended June 30, 2022

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Manteca, California

In planning and performing our audit of the basic financial statements of the City of Manteca as of and for the year ended June 30, 2022, 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 material weaknesses and other deficiencies 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 consider the deficiencies in internal control included on the Schedule of Material Weaknesses 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 Material Weaknesses, 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.

ATTACHMENT 1

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.

Mane & Associates

Pleasant Hill, California
February 8, 2024

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****SCHEDULE OF MATERIAL WEAKNESSES****2022-001 Timely and Accurate Year-End Close**

As we noted in prior year comments 2021-001, 2020-001 and 2019-001, the year-end financial closing and preparation of the general ledger data should be completed timely and accurately. In addition, well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for analysis of account balances and activities.

Due to the staff turnover prior to and during the year, there continued to be a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data. As a result, the year-end audit was adversely affected. The City provided an original general ledger for audit and then discovered that a number of closing entries had been omitted and provided a second general ledger for audit after those entries had been posted. However, during the audit, we discovered and/or City staff proposed twenty-one additional post-closing journal entries, including a number of material post-closing adjustment entries. City staff had difficulty completing material closing entries prior to providing the second general ledger for audit for areas including recording the fiscal year 2022 closing entries for interfund balances, accounts and grants receivable, capital assets, accounts payable, unearned and unavailable revenue, net pension liabilities and related deferred inflows/outflows of resources, total OPEB liability and related deferred inflows/outflows of resources. These areas affected the year-end closing process and many of the City's funds.

The above condition delayed the completion of the year-end closing process, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased in response to these increased risks.

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

Management's Response:

Staff continues to evaluate processes and procedures to ensure a more timely and accurate close. Staff turnover has made this difficult; however, additional positions were added to the department which should help alleviate some of these issues. In addition, Finance implemented a more formalized close process and close management software which will be in effect during FY 23. This software has helped Finance during the review and reconciliations of each balance sheet account. Beyond the software helping with balance sheet reconciliations, staff ultimately understands the critical need for an annual year-end close schedule to ensure that closing entries are done in a timely manner. Staff is currently working on a comprehensive and detailed year-end close schedule that will assign roles/responsibilities and time-frames for closing entries, annual filings, information gathering, etc. Further plans include a variance analysis and budget-to-actual comparisons to further identify needed areas of attention.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF MATERIAL WEAKNESSES

2022-002 Prior Year Material Weaknesses Not Implemented

During the current year audit, we followed up on the status of Material Weaknesses identified on the Status of Prior Year Material Weaknesses. 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 Material Weaknesses. Details of these deficiencies and associated management’s responses are listed in the Status of Prior Year Material Weaknesses.

- 2021-002 Accurately Adopting and Amending the Annual Budget
- 2020-001 Timely and Accurate Year End Close
- 2020-002 Timely Preparation and Approval of Bank Reconciliations
- 2020-004 Redevelopment Bonds Projects Fund
- 2019-001 Timely and Accurate Year-End Close

Current Status:

See Management’s Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Material Weaknesses.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2022-003 Accurate Calculation of Compensatory Time Hourly Pay Rate in Payroll System

The hourly rate for employee compensatory time should be accurately calculated by the payroll system. Employees are compensated for all overtime worked in either cash or compensatory time off. For employees under the Manteca Technical and Support Services Association (MTSSA) memorandum of understanding, compensatory time accrues at the rate of one and one-half times the hours worked, and the employee must make the choice of being compensated in cash or compensatory time at the time it is earned. Any unused compensatory balance at the end of one fiscal year in excess of 50 hours is paid off on the July 7 payroll each fiscal year at the employee's regular hourly rate.

We selected twenty-five employees for testing of the gross pay calculations and noted one employee that received pay for compensatory time for which we were not able to recalculate the pay using the employee's regular hourly rate of \$41.011. City staff was unable to provide documentation supporting the source of the hourly rate of \$44.376.

City staff initially thought the difference was due to the inclusion of other employee incentive pay in the hourly rate calculation, but the employee tested did not receive any incentive pay during the pay period tested. City staff then provided a report of the employee's total amount of compensatory pay for fiscal year 2022 and we determined that the hourly rate of \$44.376 was used throughout the fiscal year for the total of the 519.375 hours. City staff could not determine how the payroll system was calculating the employee's hourly rate for compensatory time. The difference in pay for the fiscal year using the two hourly rates was \$1,748.

We selected three other employees for testing of the compensatory pay rate and noted that only one of the three had the compensatory time paid out at the regular hourly rate. The difference in pay between the two hourly rates for these employees for the full fiscal year totaled \$57. We did not determine if these three employees had other incentive pay during the fiscal year that might impact the hourly rate used.

If City staff cannot determine the basis for hourly rates used for certain payroll components, errors of over- or underpayments to employees could go undetected and not corrected timely.

The City must determine how the payroll system is calculating the hourly pay rate used for the compensatory time cash payments to ensure the compensatory time pay rate agrees to the basis in the memoranda of understanding. Any differences or errors should be corrected immediately.

Management's Response:

Staff will perform a comprehensive analysis of how compensatory time off is calculated in the payroll system. With regards to the one employee that received pay for compensatory time for which were not able to recalculate, staff is researching further as to how this employee's compensation was calculated.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2022-004 Timely Filing of Form 941

The quarterly tax returns (form 941) are due 30 days after the end of each quarter and the IRS imposes a penalty of five percent per month or partial month for late filings, up to a maximum of 25 percent.

During our testing of journal entries, we noted one journal entry was to record penalties of \$902 paid in April 2022 for the late filing of the June 30, 2021 form 941.

We understand the late filing was due to the City being short staffed during the time the tax filing was due.

If the City files tax returns late, it could incur significant penalties and be out of compliance with tax filing requirements.

Although the City determined that no other IRS penalties were paid during fiscal year 2022 and through February 2024, the City should develop procedures to ensure that all tax filings are made timely throughout the fiscal year.

Management's Response:

Due to staff turnover and overall staffing/workload constraints, Form 941 was not filed in a timely manner in the past. However, with the Finance Department now being nearly fully staffed, annual filings such as Form 941 should be timely moving forward.

2022-005 Documentation of Review of Changes to Customer and Employee Databases

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, or documentation of processes in place needs to be formalized. 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.

a. Documenting Review of Changes to Customer Database

We understand that Customer Service Representatives (CSR's) can only change customer information including the name, address, and phone number, and they cannot change billing information. The only employees that can make changes to billing information are one of the Accounting Technicians and the Utility Coordinator/Senior Customer Service Representative. We understand the Utility Coordinator/Senior Customer Service Representative reviews the billing changes made by the Accounting Technician, which are then reviewed by other accountants, but there is no formal documentation of the review taking place.

b. Documenting Review of Changes to Employee Database

The Human Resources Department is responsible for adding employees and changing pay rates in the system. We understand that a change in pay rate is only authorized when there is a change in the salary matrix approved by city Council or through a personnel action form (PAF) update processed by the Human Resources department. These changes are recorded on an Audit report that the New World general ledger system generates, and this report is periodically reviewed by the Payroll Technician. However, we understand there is no formal documentation that the review takes place.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2022-005 Documentation of Review of Changes to Customer and Employee Databases (Continued)

We understand that due to employee turnover and changes in processes and procedures over the last year, City staff did not realize that documentation of review processes needed to be made/retained.

If review processes are not formally documented, the City cannot demonstrate that the review took place in accordance with City policy.

The City should update the various review and approval processes and procedures to ensure that documentation of the review is made in some formal manner.

Management's Response:

City staff will discuss potential review and approval processes and procedures, specifically for changes to customer billing information and changing employee pay rates, to ensure that documentation of the review is made in some formal manner.

2022-006 Capitalize Purchases Approved by City Council

Capital asset purchase authorizations by the City Council should be reviewed by Finance staff to ensure the transactions are recorded in the capital assets records when the purchase is complete.

During our review of the City Council minutes for transactions that could affect the financial statements, we noted three land purchase authorizations that were not reflected in the City's capital assets records. The purchases did take place during fiscal year 2022, but the cost totaling \$930 thousand was not added to the capital assets balance. Finance staff determined that the capital purchases were overlooked during the year end capitalization process.

If capital purchases are not recorded as capital assets in the general ledger, the balance of capital assets could be understated.

Finance staff should develop procedures to review City Council authorizations during the fiscal year to ensure that activities are recorded in the proper period.

Management's Response:

Shortly after the completion of the Fiscal Year 2022 Audit, Finance staff discussed approaches to track capital asset authorizations by the City Council. Subsequently, Finance staff have started a new process for tracking capital/fixed asset decisions approved by the City Council. As the Finance Director is responsible for reviewing all City Council agenda items that have a fiscal impact, the Finance Director informs the Accounting Division whenever they review an agenda item involving a decision on capital assets. In addition, the Finance Department's Administrative Assistant reviews every City Council meeting agenda for any items that involve a decision on capital assets. This two-fold approach should ensure capturing Council level capital asset changes in the capital assets records.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2022-007 Prior Year Significant Deficiencies Not 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.

- 2021-004 Purchasing Policy Compliance
- 2021-005 Using Capital Projects Identifiers for All Projects
- 2019-004 Finance Personnel Super-User Rights
- 2017-002 Golf Enterprise Fund Working Capital
- 2015-002 Timely Review and Approval of Journal Entries
- 2015-004 Timely Filing of Continuing Disclosure Reports
- 2014-002 Timely Preparation and Approval of Bank Reconciliations

Management’s Response:

See Management’s Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Significant Deficiencies.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2022-008 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 sixteen terminated employees for testing of proper and timely cutoff in the City’s computer system and termination and noted two 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
7/13/2021	5/7/2020
8/5/2021	5/6/2021

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.

We understand the employees were part-time seasonal employees and the department did not determine they would be separated from employment until fiscal year 2022, and turnover in the Finance Department may have delayed processing of terminations.

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:

There was a significant amount of turnover in the Finance Department in recent years, which may have resulted in delays in processing employee departures. The Payroll Division was recently transitioned from the Finance Department to the Human Resources Department. Hence, communications and coordination between the Finance Department’s Accounting Division and the Human Resource’s Payroll Division has become a high priority. Personnel Action Forms (PAFs) (including departures) are submitted by Human Resources staff and then reviewed by Finance staff prior to processing. Finance staff receive and review daily PAF reports to stay updated. Since employee departures require a PAF, staff believes that terminated employees will be processed in a timely manner moving forward.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

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 cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEARS 2022, 2023 and 2024:

GASB 99 - Omnibus 2022

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements (PPPs)*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements.

The Requirements of this Statement are effective for the various topics over fiscal years 2022, 2023 and 2024. Earlier application is encouraged and is permitted by individual topic.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****SCHEDULE OF OTHER MATTERS****EFFECTIVE FISCAL YEAR 2022/23:****GASB 91 – Conduit Debt Obligations**

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

GASB 96 – Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2023/24:

GASB 100 – Accounting for Changes and Error Corrections

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

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

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

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

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

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****SCHEDULE OF OTHER MATTERS****EFFECTIVE FISCAL YEAR 2024/25:*****GASB 101 – Compensated Absences***

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

Recognition And Measurement

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

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

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

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

Notes To Financial Statements

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

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****SCHEDULE OF OTHER MATTERS****GASB 101 – *Compensated Absences (Continued)******How the Changes in this Statement Will Improve Financial Reporting***

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

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

GASB 102 – *Certain Risk Disclosures*

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

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

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

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

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

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 102 – Certain Risk Disclosures (Continued)

How the Changes in This Statement Will Improve Financial Reporting

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

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**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES**

2021-001 Timely and Accurate Year-End Close

As we noted in prior year comments 2020-001 and 2019-001, the year-end financial closing and preparation of the general ledger data should be completed timely and accurately. In addition, well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for analysis of account balances and activities.

Due to the staff turnover prior to and during the year, there is a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data. As a result, the year-end audit was adversely affected. The City provided an original general ledger for audit and then discovered that a number of closing entries had been omitted and provided a second general ledger for audit after those entries had been posted. However, during the audit, we discovered and/or City staff proposed thirty-two additional post-closing journal entries, including a number of material post-closing adjustment entries. City staff had difficulty completing material closing entries prior to providing the second general ledger for audit for areas including recording the fiscal year 2021 closing entries for interfund activities, accounts and grants receivable, accounts payable, unavailable revenue, capital expenditures and special assessment revenue. These areas affected the year-end closing process and many of the City's funds.

The above condition delayed the completion of the year-end closing process, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased in response to these increased risks.

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

Current Status:

See current year comment 2022-001.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES**

2021-002 Accurately Adopting and Amending the Annual Budget

The annually adopted budget should be developed using historical activities, combined with projections of expected activity each fiscal year. In addition, recurring activities should be included in the annual budget and variances between the prior year budgeted amounts and the current year budget should be reviewed to ensure recurring activities were not omitted in error.

Due to the COVID-19 pandemic, the City adopted a provisional budget for fiscal year 2021 in June 2020 and completed a Mid-Year Budget Update and Amendment in February 2021.

During the year end audit, we noted a number of significant budget variances that were determined to be errors that went unnoticed during the budget process:

- General Fund
 - Sales tax budget was reduced \$2 million during the Mid-Year Budget Update due to the misinterpretation of a consultant's revenue report, which resulted in actual sales tax revenues exceeding the budget by \$3 million.
 - Other taxes budget was decreased \$1.5 million during the Mid-Year Budget Update due to the proper removal of revenue that was not expected to occur until fiscal year 2023, but the actual revenues at that time exceeded budget and we understand budget staff did not compare actual revenue before preparing the mid-year budget adjustments.
 - Public works building maintenance expenditures exceeded the budget by \$1.4 million due to the reorganization of the department without moving the associated budget amounts between the new divisions/expenditure categories.
 - Capital outlay expenditures were \$2.9 million less than budget, after the budget was increased \$1.9 million during the Mid-Year Budget Update, but we understand that variance was due to a number of incorrect budget figures and/or duplicated budget amounts that overstated the final budget.
 - Transfers out budget was increased \$2 million during the Mid-Year Budget Update in error due to the inclusion of the cost allocation costs that are not recorded as transfers.
- Low and Moderate Income Housing Assets Special Revenue Fund was not included in the budget, although it did have some activity in both fiscal years 2020 and 2021.
- Public Facilities Implementation Plan Capital Projects Fund capital outlay expenditures were \$26 million less than budget, but we understand that variance was primarily due to a number of incorrect budget figures and/or duplicated budget amounts that overstated the final budget.
- RDA Bonds Project Fund capital outlay expenditures of \$2.6 million were not budgeted, although the costs were related to the ongoing McKinley/120 and Union/120 projects. We understand the original (provisional) budget of \$4.4 million was removed during the Mid-Year Budget Update due to a misunderstanding of the fund's purpose.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES**

2021-002 Accurately Adopting and Amending the Annual Budget (Continued)

We understand the budget errors and oversights were primarily due to untrained or inexperienced budget staff, as well as multiple staff turnovers and the use of outside consultants.

The overstatement or understatement of annual appropriations could unintentionally lead to expenditures exceeding appropriations and it unnecessarily complicates analyzing activities to determine the final results and whether they are complete.

Prior to the adoption of the original budget, a review should be completed to ensure that all recurring expenditures have been incorporated into the budget on an annual basis and that the amounts budgeted reflect activity expected for the fiscal year. In addition, during the mid-year review process, the actual activities to date should be reviewed to ensure they are related to the original budget and not a different source, prior to amending the final budget.

Update for June 30, 2022:

During the year end audit, we noted a number of significant budget variances that were determined to be errors that went unnoticed during the budget process:

- General Fund
 - Property tax budget was increased \$2.4 million during the Mid-Year Budget Update due to a forecasting error, which resulted in actual property tax revenues to be \$3.1 million less than the budget.
 - The recurring transfer of 50% of the excise tax collected to the Sewer Enterprise Fund was not budgeted.
- Major Equipment Purchase Fee Special Revenue Fund
 - Debt service of \$59 thousand was budgeted in error, because the debt was paid off in fiscal year 2021.
- Development Services Special Revenue Fund
 - Debt service of \$157 thousand was not budgeted
- Public Safety Sales Tax Special Revenue Fund
 - Public safety expenditures were \$925 thousand more than budget due to an error in calculating the unfunded actuarial liability

In addition, City staff had to record budget corrections for fiscal year 2022 in January 2024 to:

- Increase the Community Development Block Grant Special Revenue Fund expenditure budget by \$107 thousand.
- Decrease the Redevelopment Bonds Projects Capital Project Fund project carryover expenditure budget by \$6.4 million.
- Decrease the Development Services Special Revenue Fund project carryover expenditure budget by \$12 thousand.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES****2021-002 Accurately Adopting and Amending the Annual Budget (Continued)**

Prior to the adoption of the original budget, a review should be completed to ensure that all recurring expenditures have been incorporated into the budget on an annual basis and that the amounts budgeted reflect activity expected for the fiscal year. In addition, during the mid-year review process, the actual activities to date should be reviewed to ensure that variances between budget and actual are related to the activity and not the result of errors in the budget process prior to amending the final budget.

Current Status:

Agree. During FY 21, all finance management and department heads had turnover. In addition, multiple consultants, department reorganizations, and turnover created an unstable environment where the understanding of what was done for budget and what was needed was not always transferred to the next person. For FY 22, the budget was prepared before June 30, but was subsequently corrected three times, as well as a mid-year budget update after the new Finance Director was hired.

For the FY 23 budget with new management in place, the budget was more stable; however, lacked some basic components such as a comprehensive cost allocation plan, policy updates, long-term financial forecasts, comprehensive fund-level budget schedules, comprehensive information on major revenue sources and spending areas of the General Fund, and information on reserves and fund balances. In addition, there was management changes (including the departure of the Finance Director), other turnover, and a lack of Budget staff leading toward the preparation of the FY 24 budget. This was adopted prior to June 30; however, it was noted that the attributes listed above were missing in the FY 24 Budget as well due to the lack of Budget staff and leadership. As of April 2024, the Finance Department is nearly fully staffed (including a new Finance Director) with the exception of the Accounting Manager. The new Finance Director's decision to appoint an Acting Budget Manager, along with his own expertise and experience in Municipal Budgeting resulted in a successful Mid-Year Budget Update to Council in February of 2024. The Fiscal Year 2025 Annual Budget will be a vast improvement over the prior two Fiscal Years, and should also include most (if not all) of the attributes mentioned above.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES**

2021-003 Prior Year Material Weaknesses Not Implemented

During the current year audit, we followed up on the status of Material Weaknesses identified on the Status of Prior Year Material Weaknesses. 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 Material Weaknesses. Details of these deficiencies and associated management's responses are listed in the Status of Prior Year Material Weaknesses.

- 2020-001 Timely and Accurate Year End Close
- 2020-002 Timely Preparation and Approval of Bank Reconciliations
- 2020-004 Redevelopment Bonds Projects Fund
- 2020-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards

Current Status:

See Management's Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Material Weaknesses.

2020-001 Timely and Accurate Year-End Close

As we noted in prior year comment #2019-001, the year-end financial closing and preparation of the general ledger data should be completed timely and accurately. In addition, well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for analysis of account balances and activities.

Due to the staff turnover during the year, there is a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data. As a result, the year-end audit was adversely affected. During the audit, we discovered and/or City staff proposed ninety post-closing journal entries, including a number of material post-closing adjustment entries. City staff had difficulty completing material closing entries prior to providing the general ledger for audit for areas including recording the fiscal year 2020 closing entries for cash and investments, debt service transactions and the issuance of new bonds, interfund activities, accounts and grants receivable, capital assets, the sale of Successor Agency land, contracts payable, compensated absences, unearned revenue, pension liabilities and related deferred outflows/inflows of resources and OPEB liabilities and related deferred outflows/inflows of resources. In addition, the components of fund balance in the General Fund had not been adjusted to reflect the fiscal year 2020 activity. These areas affected the year-end closing process and most of the City's funds.

The above condition delayed the completion of the year-end closing process, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased in response to these increased risks.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES****2020-001 Timely and Accurate Year-End Close (Continued)**

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

Current Status:
See 2022-001.

2020-002 Timely Preparation of Bank Reconciliations

Bank reconciliations are one of the most important internal controls a 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 bank statement month end.

We reviewed the City's February 2020 bank reconciliations for the General Checking and Payroll Checking Accounts and noted they were not prepared until August 3, 2020 and were not reviewed until August 13, 2020. The Payroll Section 125, Successor Agency Checking, and Worker's Compensation Checking Accounts were prepared on March 3, 2020, however, they were not reviewed until August 13, 2020.

We reviewed the City's June 2020 bank reconciliation for the General Checking Account and noted it was not prepared until March 23, 2021 and it was reviewed on March 24, 2021. The bank reconciliations for the Payroll Checking, Payroll Section 125, and Worker's Compensation Checking Accounts were not prepared until August 5, 2020 and then were not reviewed until October 20, 2020. The Successor Agency Checking Account reconciliation was not prepared until August 4, 2020 and was not reviewed until October 20, 2020.

In addition, the June 2020 Payroll Checking Account bank reconciliation included an unreconciled variance of \$168. Subsequently, we were provided with an updated bank reconciliation for the account that was prepared and reviewed on July 19, 2021 that identified and corrected the variance.

We understand the delays in preparing and reviewing the bank reconciliations were due to the high volume of staffing changes that occurred in the Finance Department during the fiscal year.

Update for June 30, 2021:

We noted the November 2020 bank reconciliations for the Worker's Compensation Checking, Successor Agency Checking and General Checking Accounts were not prepared and reviewed until March 16, 2021, April 27, 2021 and April 29, 2021, respectively. The Payroll Checking Account was not prepared until May 11, 2021 and reviewed on May 12, 2021, and the Payroll Section 125 Account was not prepared until May 10, 2021 and reviewed on May 12, 2021.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES**

2020-002 Timely Preparation of Bank Reconciliations (Continued)

We reviewed the City’s March 2021 bank reconciliations and noted that they were prepared and reviewed within 30-45 days of month end.

We noted the June 2021 bank reconciliation for the Payroll Section 125 Account was not prepared until August 18, 2021 and it was reviewed on August 23, 2021. The bank reconciliation for the Payroll Checking Account was not prepared until April 6, 2022 and it was reviewed on April 12, 2022.

We understand the delays in preparing and reviewing the bank reconciliations were again due to the high volume of staffing changes that occurred in the Finance Department during the fiscal year.

Update for June 30, 2022:

We selected the months of September 2021 and November 2021 bank reconciliations for testing of timely preparation and review and noted the following:

- The general checking account reconciliations for September 2021 and November 2021 were both prepared on March 7, 2022, and although they were reviewed, the date of the review was not documented.
- The September 2021 and November 2021 payroll and Successor Agency bank reconciliations were prepared and reviewed in April 2022.
- The November 2021 worker’s compensation account reconciliation was reviewed in December 2021, but the preparation date was not documented.
- The November 2021 payroll section 125 bank reconciliation was prepared and reviewed in December 2021.

We reviewed the City’s June 2021 bank reconciliations and noted that they were prepared and reviewed within 30-45 days of month end.

We understand the delays in preparing and reviewing the bank reconciliations were again due to the high volume of staffing changes that occurred in the Finance Department during the fiscal year.

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.

The City must implement procedures to ensure the timely preparation and review of bank reconciliations throughout the fiscal year, and the completion should be documented/dated in some formal manner. In addition, as unreconciled differences appear, they should be fully researched to identify the cause and ensure they are resolved timely.

Current Status:

During FY 21 and FY 22 staff turnover and lack of cross training caused us to be behind. The City has engaged with an outside consultant to help catch-up on Bank Reconciliations. The City is on track to process Bank Reconciliations in a timely manner starting in Fiscal Year 2025.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES**

2020-004 Redevelopment Bonds Projects Fund

Fiscal agent cash from a bond issuance that is being used to fund the costs of a capital project should be drawn down to reimburse the City for costs incurred as soon as it has been determined that the costs are eligible for reimbursement. This process of drawing down the eligible funds should help manage the cash flow demands of the City to complete the project.

The Redevelopment Bond Projects Capital Projects Fund incurred costs in the current and prior years related to projects that were eligible to be reimbursed with funds drawn from fiscal agent accounts in the amount of \$31.1 million and the Low and Moderating Income Housing Special Revenue Fund incurred costs in the current and prior year related to fiscal agent cash eligible projects in the amount of \$2.8 million. As of June 30, 2020, the City had not drawn down any of the eligible funds from the fiscal agent accounts to reimburse the City for the costs that had been paid.

When funds are not drawn down on a regular basis to reimburse the City for eligible costs that have been paid, it increases the pressure on the City’s ability to meet its overall cash flow demands for its normal operations.

Update for June 30, 2021 Audit:

The City incurred additional project costs of \$2.6 million during fiscal year 2021, but still had not drawn down on any of the eligible funds from the fiscal agent accounts as of June 30, 2021.

We understand the funds were not drawn down due to staffing turnover at the City.

Update for June 30, 2022 Audit:

The City incurred additional project costs of \$103 thousand during fiscal year 2022, but still had not drawn down on any of the eligible funds from the fiscal agent accounts as of June 30, 2022.

The City should develop processes to ensure that when projects that are funded with bond proceeds have expenditures, that those expenditures are reviewed for eligibility and the cash is drawn down from the fiscal agent accounts on a timely basis to help manage the City’s cash flow demands.

Current Status:

Agree. Staff recognizes the need to make timely drawdowns of project funds to match eligible expenses. Due to staff turnover this has not been completed. In addition, cross training on projects and reconciliation of projects in is process and this is expected to be completed during FY 24. A “catch-up” of drawdowns is anticipated in during FY 24 as well.

2020-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards

In accordance with the requirements of OMB Uniform Administrative Requirements Subpart D Section 200.302(b) (1), the City should report all Federal awards expended in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES****2020-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards
(Continued)**

During our testing of the fiscal year 2020 SEFA provided for audit we noted that federal expenditures for the Highway Planning and Construction Grant (CFDA #20.205) were overstated for the Yosemite Avenue – Main to Cottage project in the amount of \$210,174 and understated for the Main Street – Yosemite to Atherton project in the amount of \$95,362. The projects were misstated due to the City including the total general ledger expenditures for the projects in prior years, rather than the federally reimbursable expenditures. And, the SEFA did not include federally reimbursed expenditures for the Main Street: Northgate to Alameda and Yosemite: Walnut to Main projects in the amounts of \$640 and \$810, respectively.

In addition, the SEFA identified one grant in the amount of \$39,719 as being part of the Department of Justice Edward Byrne Memorial Justice Assistance Program (CFDA #16.738), but the grant was actually for the Department of Transportation Office of Traffic State and Community Highway Safety Program (CFDA #s 20.600, 20.616 and 20.608) and the program expenditures should have been reported in the amount of \$40,736.

Finally, the SEFA included expenditures in the amount of \$73,248 for the Department of Homeland Security Staffing for Adequate Fire and Emergency Responses (SAFER) Program (CFDA #97.083), but City staff later determined that amount included the City's 25% matching requirement of \$18,312.

Update for June 30, 2021 Audit:

During our testing of the fiscal year 2021 SEFA provided for audit we noted that federal expenditures for the Highway Planning and Construction Grant (CFDA #20.205) were overstated for the Yosemite Avenue – Main to Cottage project in the amount of \$222,205. The project was misstated due to the City including the total general ledger expenditures for the project, but the federal funding had been fully expended in fiscal year 2020.

Incorrect reporting not only misstates the SEFA, it also implies that the City is not in compliance with the reporting requirements of the OMB Uniform Administrative Requirements. As a result, future federal funding could be adversely affected.

The City must develop procedures to ensure that amounts reported on the SEFA are accurate and include all Federal awards expended each fiscal year.

Current Status:
Implemented.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
MATERIAL WEAKNESSES****2019-001 Timely and Accurate Year-End Close**

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

Due to the staff turnover during the year, there is a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data. As a result, the year-end audit was adversely affected. During the audit, we discovered and/or City staff proposed fifty-four post-closing journal entries, including a number of material post-closing adjustment entries. City staff had difficulty completing material closing entries prior to providing the general ledger for audit for areas including recording the fiscal year 2018 closing entries related to the total OPEB liability and related deferred outflows/inflows of resources and claims payable and the fiscal year 2019 closing entries for debt service transactions, interfund activities, fair value of the swap derivative, accounts receivable, capital assets, contracts payable, pension liabilities and related deferred outflows/inflows of resources and OPEB liabilities and related deferred outflows/inflows of resources. In addition, the components of fund balance in the General Fund had not been adjusted to reflect the revised fund balance policy adopted during the fiscal year. These areas affected the year-end closing process and most of the City's funds.

The above condition delayed the completion of the year-end closing process, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased in response to these increased risks.

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

Current Status:

See 2022-001.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2021-004 Purchasing Policy Compliance

The City's Purchasing Policy contains various thresholds, including those for which City staff is required to obtain informal or formal quotes, contracts, and sole source documentation. Therefore, all applicable disbursements should be supported by documentation such as contracts or bidding documents.

We selected 40 transactions for testing to supporting documentation and compliance with the City's Purchasing Policy and noted the following:

- The supporting bidding/quote documentation and contract could not be located for one payment for \$1,090 for technology maintenance services. City staff indicated they were unable to locate an agreement for the payment, however they are working to obtain an updated agreement for fiscal year 2023.
- The supporting bidding/quote documentation could not be located for one payment for \$8,999 for professional services related to a fire station project. City staff indicated the transaction was handled by City staff that is no longer with the City, so the records could not be found.
- For one payment of \$68,925 for construction management services related to a sewer project that totaled \$661 thousand, the City did not go through a bidding process to select a vendor prior to the City Council approving the contract. In addition, we understand City staff did not complete a sole source purchase justification worksheet for the selection of the vendor, because they "had worked with the chosen vendor before and had received cost-effective services for numerous construction projects in the past, they only needed a proposal from that vendor and did not determine it was necessary to follow the City's formal bid process," but that decision was not documented in the staff report to Council or in the procurement records.
- One payment in the amount of \$2,811 for medical testing for employees exposed to asbestos was not accompanied by the sole source purchase justification worksheet to show why the required bidding/quote processes were not completed. We understand that there was only one qualified firm to complete the required medical testing, but City staff overlooked completing the sole source purchase form to comply with the City's purchasing policy.
- The supporting bidding/quote documentation or the sole source purchase justification worksheet could not be located for one payment in the amount of \$23,588 for wastewater disposal services. And, the vendor's contract was not approved by the City Council even though payments made to the vendor exceed the \$75,000 threshold. We understand that the contract was not brought to the City Council, because the estimated cost of the contract was based on a per-ton amount, rather than estimating the total expected tonnage that would be needed.
- The supporting bidding/quote documentation for one payment of \$2,584 for temporary accountant services could not be located.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES****2021-004 Purchasing Policy Compliance (Continued)****Update for June 30, 2022 Audit:**

We selected 40 transactions for testing to supporting documentation and compliance with the City's Purchasing Policy and noted that the contract could not be located for one disbursement for the purchase of a dump truck in the amount of \$183.2 thousand. We did note that the City Council had approved the purchase of the vehicle as part of the Update and Corrections to the Fiscal Year 2021-22 Adopted Budget approved on August 17, 2021, but the purchasing policy does require the use of a contract.

Without supporting written documentation in compliance with the requirements of the Purchasing Policy, the likelihood of error, improper accounting treatment, and unauthorized transactions increases.

The City must develop procedures to ensure that the procurement files contain documentation to demonstrate compliance with the bidding/quote, contract and sole source requirements. The records should be readily available at all times, including after employees leave the City.

Current Status:

Agree. Given past issues with Finance Department staff and other Department staff complying with the City's Purchasing Policy, there has been a renewed emphasis on following the policy at all levels of the City. In September of 2023, the pages of the Purchasing Policy regarding thresholds for bidding/solicitation, purchase orders and agreements/contracts were updated via Council Approval. A comprehensive review of the whole policy is planned for Fiscal Year 2025. In the interim, with the appointment of a new Deputy Director of Finance during Fiscal Year 2024 overseeing the accounting and purchasing functions, there has been an emphasis on educating Departments on the importance of complying with the Purchasing Policy. In addition, under the Deputy Director's guidance, the City is transitioning to fully electronic Purchase Order and AP invoice batch processing. Electronic processing allows for thorough cataloging, and lower risk of losing back-up documentation.

2021-005 Using Capital Projects Identifiers for All Projects

Capital projects activity is normally tracked by the use of a project number, which facilitates the analysis of project activities and the eventual capitalization of completed projects.

The City undertook a renovation project during the end of fiscal year 2020 that was completed during fiscal year 2021 and used City staff for the construction/improvements. The total project costs incurred were approximately \$283 thousand, but City staff could not provide the exact cost of the project, because projects constructed by City staff are not assigned a capital projects number. In this case, the project costs were tracked in a spreadsheet and the City labor costs included in the spreadsheet were an estimate.

When reviewing the spreadsheet of project costs, we also noted that the account coding for certain costs was inconsistent. Most of the services and supplies were charged to the "Supplies Special Department" account, but carpet, furniture and blinds totaling \$61 thousand were charged to the Self Insurance Internal Service Fund's claims and insurance damage account.

We understand that internal projects have never been tracked by capital project number.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2021-005 Using Capital Projects Identifiers for All Projects (Continued)

If projects are not tracked by project number, not only does that mean the project could incur overruns that go unnoticed, but a project that meets the City’s capitalization threshold may be overlooked.

The City should develop procedures to ensure that all capital projects activities are tracked consistently and assigned a project number, regardless of whether they are internally or externally constructed projects, and expenditure account coding should be critically reviewed to ensure it is appropriate for the cost incurred.

Current Status:

Agree. The City plans to do a review of the CIP policy and update in FY 25 to include internally constructed items as well as the timekeeping methodology to adequately charge employee costs to a project.

2021-006 Prior Year Significant Deficiencies Not 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.

- 2019-004 Finance Personnel Super-User Rights
- 2017-002 Golf Enterprise Fund Working Capital
- 2015-002 Timely Review and Approval of Journal Entries
- 2015-003(a) Timely Preparation and Approval of Treasurer’s Reports – Implemented in 2022
- 2015-003(b)iii Investment Reporting and Compliance – Implemented in 2022
- 2015-004 Timely Filing of Continuing Disclosure Reports
- 2014-002 Timely Preparation and Approval of Bank Reconciliations
- 2012-02(a) Internal Controls – Segregation of Duties - Super-User Status in the General Ledger System

Current Status:

See Management’s Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Significant Deficiencies.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2020-006 Prior Year Significant Deficiencies Not 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, 2020. 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.

- 2019-004 Finance Personnel Super-User Rights
- 2019-007 Determine Disposition of Lease Proceeds – Implemented in 2021
- 2017-002 Golf Enterprise Fund Working Capital
- 2015-002 Timely Review and Approval of Journal Entries
- 2015-003(a) Timely Preparation and Approval of Treasurer's Reports – Implemented in 2022
- 2015-003(b)iii Investment Reporting and Compliance – Implemented in 2022
- 2015-004 Timely Filing of Continuing Disclosure Reports
- 2014-002 Timely Preparation and Approval of Bank Reconciliations

Current Status:

See Management's Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Significant Deficiencies.

2020-008 Timely Preparation and Approval of Treasurer's Reports

This comment is an update of matters repeated in prior years as discussed in Other Matters 2015-003a, and 2014-007 and 2012-07, the latter two of which are not repeated in this report since they are substantially redundant with our comments below.

To be an effective control, Treasurer's Reports and the associated review should be completed in their entirety as soon as reasonably possible after each month or quarter-end, typically within thirty to forty-five days of the bank statement month end. In addition, Section XX, Reporting, of the City's Investment Policy requires that the City Treasurer review and make available the monthly investment reports to the City Manager and City Council.

During the audit, we noted that Treasurer's Reports had not been prepared and reviewed since January 2020 and therefore were not made available on a monthly basis to the City Manager and the City Council. We did note that City staff prepared a Summary of Investments for the quarters ended March 31, 2020 and June 30, 2020; however, the summary reports were not signed by a preparer or a reviewer.

With such delays, any errors, misstatements and/or unauthorized activities may not be identified or corrected in a timely manner.

Update for June 30, 2021 Audit:

We did note that the City amended its Investment Policy to require the submission of a quarterly Treasurer's Report to the City Manager and City Council, however the March 31, 2021 and June 30, 2021 reports were not submitted until September 21, 2021.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2020-008 Timely Preparation and Approval of Treasurer’s Reports (Continued)

We understand the delay in preparing the Treasurer’s Reports was due to the turnover in staffing in the Finance Department.

The City should implement procedures to ensure the timely preparation of the monthly Treasurer’s Reports and ensure that preparation and review are documented in a formal manner, including the date on which each takes place.

Current Status:
Implemented

2019-003 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, 2019. 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.

- 2017-002 Golf Enterprise Fund Working Capital
- 2015-002 Timely Review and Approval of Journal Entries
- 2015-003(b)iii Investment Reporting and Compliance
- 2015-004 Timely Filing of Continuing Disclosure Reports
- 2012-02(a) Internal Controls – Segregation of Duties - Super-User Status in the General Ledger System

Current Status:
See comment 2021-006 and Management’s Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Significant Deficiencies below.

2019-004 Finance Personnel Super-User Rights

As noted in prior year comment 2012-02, good internal controls are based a segregation of duties, and no one finance employee should have access to an asset and the controlling documentation that supports that asset. Ideally, one employee should retain authorization to use an asset and another employee should maintain the records over that asset. Super-user rights give an individual the potential to obtain both of these functions. Due to the reasons mentioned above, Finance staff should not normally be allowed to have super-user rights in the City’s general ledger system.

We noted that three City employees (the Finance Director, the Accounting Manager, and the Deputy Director of Finance) continue to have super-user rights to the New World general ledger. 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 (i.e., unauthorized adjustments could be made to the general ledger). In addition, unauthorized transactions could be processed without proper review and approval.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES****2019-004 Finance Personnel Super-User Rights (Continued)**

While we understand the City has a limited number of staff available to provide system administration functions, the City should consider restricting super user rights to as few employees as possible. 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 employees.

Update for June 30, 2020 and 2021 Audits:

For the year ended June 30, 2020 and 2021, we noted that three City employees (the Finance Director, the Accounting Manager, and the Budget Manager) continue to have super-user rights to the New World general ledger.

Update for June 30, 2022 Audit:

For the year ended June 30, 2020, we noted that five Finance Department employees (the Deputy Finance Director, the Senior Payroll Technician and three Senior Budget Analysts) have super-user rights to the New World general ledger.

Current Status:

We agree that the security of super users should be reviewed more thoroughly and that a procedure should be established for system changes. Internal controls for super users is currently being reviewed. Because of the nature of the ERP system, other compensating controls will be necessary. We will add an independent review of the log files to the close management software for the super users. However, ultimately, staff understands that super user rights should be limited to a select few and are actively discussing which positions during Fiscal Year 2024.

2018-001 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, 2018. 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.

- 2017-002 Golf Enterprise Fund Working Capital
- 2015-002 Timely Review and Approval of Journal Entries
- 2015-003 Investment Reporting and Compliance
- 2015-004 Timely Filing of Continuing Disclosure Reports
- 2014-002 Timely Preparation and Approval of Bank Reconciliation
- 2012-02 Internal Controls – Segregation of Duties

Current Status:

See comment 2021-006 and Management's Response to the Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Significant Deficiencies below.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2017-002 Golf Enterprise Fund Working Capital

The Government Finance Officers Association (GFOA) recommends that local governments adopt a target amount of working capital which indicates the level of funding needed to meet the obligations of the fund. Working capital is defined as the difference between current assets and current liabilities of the fund. In addition, the City's policy for enterprise funds is that the target for working capital is that a baseline of 90 days of working capital or 25% of operating expenses is maintained.

As of June 30, 2017, the Golf Enterprise Fund had working capital that could only cover 19 days or 3% of the Fund's operating expenses. In addition, the fund has incurred an operating loss for the past two fiscal years.

The City is not in compliance with the terms of its working capital policy.

The Golf Fund revenue as well as the annual play has declined over the past 10 years combined with the increase in expenditures for capital improvements necessary to keep the course in operating condition.

The City should develop a plan to analyze the operations of the Golf Enterprise Fund and develop a plan to fund the operations in a manner that would bring the fund into compliance with the City's working capital policy.

Update for June 30, 2018 Audit: As of June 30, 2018, the Golf Enterprise Fund had working capital that could only cover 23 days or 6% of the Fund's operating expenses.

Update for June 30, 2019 Audit: For the year ended June 30, 2019, the Golf Enterprise Fund incurred an operating loss of \$152,029 and as of June 30, 2019, the Golf Enterprise Fund had working capital that could only cover 20 days or 5.5% of the Fund's operating expenses.

Update for June 30, 2020 Audit: For the year ended June 30, 2020, the Golf Enterprise Fund incurred an operating loss of \$254,975 and as of June 30, 2020, the Golf Enterprise Fund had working capital that could only cover 37 days or 10.2% of the Fund's operating expenses.

Update for June 30, 2021 Audit: For the year ended June 30, 2021, the Golf Enterprise Fund results improved and the Fund had operating income of \$76,448 and as of June 30, 2021, the Golf Enterprise Fund had working capital that could cover 75 days or 20% of the Fund's operating expenses.

Update for June 30, 2022 Audit: For the year ended June 30, 2022, the Golf Enterprise Fund results improved slightly although it had an operating loss of \$85,050. As of June 30, 2022, the Golf Enterprise Fund had working capital that could cover 88 days or 24% of the Fund's operating expenses and the unrestricted fund deficit was \$1.2 million, which is primarily due to the pension and OPEB liabilities and related balances.

Current Status:

The revenue for the golf course was evaluated for the FY 22 budget and we believe the subsidy from the General Fund is sufficient to correct the issue with working capital. This was further evaluated during FY 22 as a fee study took place which recommended increasing the overall user fees for the golf course. Staff will evaluate the financial position of the Golf Fund during the FY 25 Budget process and will budget costs (and subsize if necessary) to meet the 25% reserve target.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-002 Timely Review and Approval of Journal Entries

This comment is an update of matters repeated in prior years as discussed in Significant Deficiency 2014-003, which is not repeated in this report since it is substantially redundant with our comments below.

Journal entries should be prepared and reviewed in a timely manner for the period in which the entry is to be posted, in order to keep accounts up to date with the current information. In addition, to have a complete audit trail of the journal entry process, the dates of preparation and review should be documented for all journal entries.

We selected forty journal entries for testing of controls over the journal entry process and supporting documentation and noted thirteen of the journal entries were reviewed more than a month after the periods the entries were intended to adjust. The journal entries were reviewed from two to nine months after the date of preparation or the period in which they were being posted.

Two of the 40 journal entries tested did not have evidence of the date prepared and the date reviewed, which is typically indicated by date stamps used by the Finance Department. One of the two journal entries without a date stamp did have a date printed on the bottom of the page that reflected when the journal voucher may have been prepared, however, no date of review was noted.

During our testing of investments, we also noted December 2014 and March 2015 journal entries to record investments and interest, indicate they were prepared on April 23, 2015 and reviewed and posted on April 22, 2015 which is prior to when the Treasurer's Reports themselves were prepared and reviewed.

Finally, we also noted that 5 of the 40 journal entries tested included the date stamp in accordance with City policy, but the date on the review stamp was prior to the date the document was prepared.

Without the timely preparation, review and approval of journal entries, there is an increased risk of unauthorized entries or an error going undetected, and interim financial reporting may be inaccurate.

We understand the delay in the review process was due to the shortage of staff in the Finance Department, and the date stamp differences were due to staff oversight.

The City should develop procedures to ensure that all journal entries are prepared, reviewed, approved and posted to the general ledger in a timely manner (within 30-45 days of the date of activity). And, the date stamps should be included in that review process to ensure the process is accurately documented.

Update for June 30, 2016 Audit:

We selected forty journal entries for testing of controls over the journal entry process and supporting documentation. We noted eleven of the entries were reviewed from two to six months after the date of preparation or the period to which they were being posted.

One of the forty journal entries tested did not have evidence of the date prepared, which is typically indicated by date stamps used by the Finance Department.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-002 Timely Review and Approval of Journal Entries (Continued)

Update for June 30, 2017 Audit:

We selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted four of the forty entries were reviewed and posted more than 45 days after the date they were prepared.

Additionally, it was noted that three of the forty journal entries tested were posted to the general ledger more than 2 to 5 months after the transactions occurred.

Update for June 30, 2018 Audit:

We again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted that the journal entries were prepared, reviewed, approved and posted to the general ledger in a timely manner. However, we noted two journal entries that had review dates stamped on them that were prior to the preparation date of the entries.

Update for June 30, 2019 Audit:

During this year's audit, we again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted that the thirty-nine of the journal entries were prepared, reviewed, approved and posted to the general ledger in a timely manner. However, we noted one of the journal entries was prepared and posted to the general ledger in a timely manner, but the review indication included what appears to be the reviewers date stamp, but not the sign-off of approval by the reviewer.

Update for June 30, 2020 Audit:

During this year's audit, we again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted that thirty-seven of the journal entries were prepared, reviewed, approved and posted to the general ledger in a timely manner. However, we noted three of the journal entries were prepared and posted to the general ledger in a timely manner, but the review of the journal entries did not take place until two to four months later. In addition, one of the journal entries was posted to February 2020 instead of September 2019, when the transaction occurred.

Update for June 30, 2021 Audit:

During this year's audit, we again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted that eighteen of the journal entries were prepared, reviewed, approved and posted to the general ledger in a timely manner. However, we noted twelve of the journal entries were prepared, reviewed and posted to the general ledger from two to nine months later.

We understand the delay in the review process continues to be due to the shortage of staff and staff turnover in the Finance Department.

The City should develop procedures to ensure that all journal entries are prepared, reviewed, approved and posted to the general ledger in a timely manner (generally within 30-45 days of the date of activity). And, the date stamps should be included in that review process to ensure the process is accurately documented.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-002 Timely Review and Approval of Journal Entries (Continued)

Update for June 30, 2022 Audit:

During this year's audit, we again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. Although we noted a number of journal entries were posted to the general ledger from three to eighteen months after the date of the activity being recorded, we did note that a significant number of those entries were late due to the delay in the prior fiscal year closing as discussed in Comment 2022-001.

Current Status:

The City has procedures in place for all journal entries to be reviewed before they are posted to the general ledger, and these entries are initialed by the reviewer. Due to staff turnover, the entries were not entered timely. This is also related to the 2022-001 finding with the timely close. As the close management system is being refined, procedures for close will be done on a more regular basis. We anticipate the during FY 24 that additional controls will take place with closing each period and using system controls to lock down prior period transactions.

2015-003 Investment Reporting and Compliance

During our review of timely preparation of the Treasurer's Reports and compliance with the requirements of the City's Investment Policy, we noted the following:

a. Timely Preparation and Approval of Treasurer's Reports

This comment is an update of matters repeated in prior years as discussed in Other Matters 2014-007 and 2012-07, which are not repeated in this report since they are substantially redundant with our comments below.

To be an effective control, Treasurer's Reports and the associated review should be completed in their entirety as soon as reasonably possible after each month or quarter-end, typically within thirty to forty-five days of the bank statement month end. In addition, Section XX, Reporting, of the City's Investment Policy requires that the City Treasurer review and make available the monthly investment reports to the City Manager and City Council.

We reviewed the City's December 31, 2014 and March 31, 2015 Treasurer's Reports and noted that they were not prepared until May 31 and June 1, respectively, and there was no indication of the date when they were reviewed. We reviewed the City's Treasurer's Report and Successor Agency Treasurer's Report for the month of June 2015, and noted that both of the Treasurer's Reports were reviewed and approved on September 15, 2015.

With such delays, any errors, misstatements and/or unauthorized activities may not be identified or corrected in a timely manner.

We understand the delay in preparing the Treasurer's Reports was due to the Finance Department being short staffed from July 2014 through March 2015 and that an employee was hired in March 2015 to help alleviate the workload.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-003 Investment Reporting and Compliance (Continued)

The City should implement procedures to ensure the timely preparation of the monthly Treasurer's Reports and ensure that preparation and review are documented in a formal manner, including the date of which each takes place.

b. Treasurer's Report Accuracy and Compliance with Government Code

During our review of the January 2015 Treasurer's Report, we noted the following issues:

i. Correct Identification of Investments

The Treasurer's Report and Investment Reconciliation should accurately identify each investment based on information provided by the trustee/fiscal agent statement.

During our review of the January 2015 Summary of Account Activity in the Treasurer's Report, we noted CAMP investments were properly classified, however on the Fund Summaries page of the Treasurer's Report, they were reported as Certificates of Deposit.

We also noted the City's Certificates of Deposit, which were correctly identified in the Summary of Account Activity page of the Treasurer's Report, were classified as Commercial Paper in the Investment Schedule page of the Treasurer's Report. And, the total Certificates of Deposit reported on the Investment Schedule did not agree to the total on the Union Bank Statement as of January 31, 2015.

In addition, this error in reporting the CAMP investments as Certificates of Deposits caused the actual balance of Certificates of Deposit of \$25 million to be excluded from the Fund Summaries page of the Treasurer's Report.

City staff indicated that when they were preparing the Treasurer's Report, they forgot to update the categories.

Each page of the Treasurer's Report should be reviewed in detail each month and reconciled to both the investment statements and the general ledger to ensure accurate reporting.

ii. Fiscal Agent Investment Reporting

Treasurer's Reports should be updated monthly, or they should denote the date of the information reported if it does not correspond with the statements as of the reporting date.

In our review of the January 2015 fiscal agent statements, we noted that there were variances between the January 2015 Treasurer's Report and the fiscal agent statements. The Treasurer's Report did not indicate that the reported balances were accurate as of another date other than the January 2015 statements.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-003 Investment Reporting and Compliance (Continued)

We understand the City only updates the activity for the fiscal agent investments on a semi-annual basis in the Treasurer’s Report, but the Report does not include such an indication.

As a result, the City is incorrectly reporting investments in the Treasurer’s Report on a month-to-month basis – they are only accurate semi-annually.

City staff should include the actual month-end balances of the fiscal agent statements in the Treasurer’s Report, or include an indication that the information is updated only semi-annually. Another option would be to exclude the fiscal agent account balances from the Treasurer’s Report, since the Investment Policy excludes funds subject to bond indentures.

iii. Compliance with Government Code Section 53607 Reporting Requirements

The Reporting Section of the City’s Investment Policy indicates that the monthly investment reports are to be *made available* to the City Council. However, the Resolution adopting the annual Investment Policy and the Budget Policy delegate the authority to invest the funds of the City under California Government Code Section 53607, which *requires* monthly reporting of transactions to the legislative body.

We understand the monthly reports are not submitted to City Council and the Treasurer’s Reports are only submitted when they are requested by City Councilmembers.

The City should determine whether the current reporting requirement in the Investment and Budget Policies is sufficient under the Government Code, or if the Investment and Budget Policies and reporting method should be revised to conform to the Code requirements.

iv. Compliance with Government Code Section 53646 – Updating Reference to Investment Policy

Government Code Section 53646 requires that the Treasurer’s Report state compliance of the portfolio to the statement of investment policy, or the manner in which the portfolio is not in compliance.

We reviewed the December 2014, January 2015 and March 2015 Treasurer’s Reports and noted that the statement of certification of compliance to the City’s Investment Policy references the Investment Policy adopted by City Council dated September 18, 2006, when the City’s most recent Investment Policy is dated August 6, 2013.

Staff indicated that during the preparation of the Treasurer’s Report, staff copied over the incorrect date of the adoption of the Investment Policy.

The date in the certification should be updated or it could even be removed.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-003 Investment Reporting and Compliance (Continued)

City staff should review and compare the Treasurer's Report to all investment/trustee statements in detail each month and not just update the balances, to ensure information is being presented correctly. City staff should also ensure that investments are classified correctly by investment type and amount. Finally, the City should determine whether the current reporting requirement in the Investment Policy is sufficient under the Government Code, or if the Investment Policy and reporting method should be revised to conform to the Code requirements.

Update for June 30, 2018 Audit:

a. Timely Preparation and Approval of Treasurer's Reports

We again reviewed the Treasurer's Reports for timely preparation and proper approval and noted the following:

- The October 31, 2017 Treasurer's Report was prepared and reviewed on April 17, 2018 almost six months after the end of the period.
- The November 30, 2017 Treasurer's Report was prepared and reviewed on April 20, 2018 almost five months after end of the period.
- The February 28, 2018 Treasurer's Report was prepared and reviewed on May 15, 2018 almost three months after the end of the period.

b. Treasurer's Report Accuracy and Compliance with Government Code

i. Correct Identification of Investments

Implemented

ii. Fiscal Agent Investment Reporting

Implemented

iii. Compliance with Government Code Section 53607 Reporting Requirements

Not implemented. The City did not submit monthly investment reports to the City Council in fiscal year 2017-2018.

iv. Compliance with Government Code Section 53646 – Updating Reference to Investment Policy

Implemented

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-003 Investment Reporting and Compliance (Continued)

Update for June 30, 2019 Audit:

- a. Timely Preparation and Approval of Treasurer's Reports***
Implemented during fiscal year 2019. However, see current year comment 2020-008.
- b. Treasurer's Report Accuracy and Compliance with Government Code***
 - iii. Compliance with Government Code Section 53607 Reporting Requirements***
Not implemented. The City did not submit monthly investment reports to the City Council in fiscal year 2017-2018.

Update for June 30, 2020 Audit:

- a. Timely Preparation and Approval of Treasurer's Reports***
See 2020-008.
- b. Treasurer's Report Accuracy and Compliance with Government Code***
 - iii. Compliance with Government Code Section 53607 Reporting Requirements***
Not implemented. The City did not submit monthly investment reports to the City Council in fiscal year 2019-2020.

Update for June 30, 2021 Audit:

- a. Timely Preparation and Approval of Treasurer's Reports***
See 2020-008.
- b. Treasurer's Report Accuracy and Compliance with Government Code***
 - iii. Compliance with Government Code Section 53607 Reporting Requirements***
Not implemented. The City did not submit monthly investment reports to the City Council in fiscal year 2020-2021.

Current Status:
Implemented.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL****STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES****2015-004 Timely Filing of Continuing Disclosure Reports**

The covenants of the City's 2012 Water Refunding Bonds and 2012 Sewer Refunding Bonds require them to prepare an Annual Report no later than seven months after the end of the City's fiscal year. The Report should be filed with the Municipal Securities Rule-making Board (MSRB) by either the City or the bond trustee.

During our review of the filing of continuing disclosure, we noted that as of October 21, 2015, the City had not filed any Annual Reports to date for the 2012 Water Refunding Bonds or the 2012 Sewer Refunding Bonds.

The City is not in compliance with the annual reporting requirements of the Bond covenants.

Although the City does make annual filings for other bond issues, we understand the failure to report was due to City staff not being aware of the disclosure requirements for these debt issues.

The City should ensure that the delinquent Annual Reports are filed with MSRB and future Reports are filed timely. If the Trustee is responsible for the filing, the City should make sure that the filing is completed by the deadline.

Update for June 30, 2018 Audit:

During our review of the filing of continuing disclosure reports, we noted that the City did not file the annual reports for the fiscal year ended June 30, 2017 until May 2, 2018 for the 2012 Water Refunding Bonds and the 2012 Sewer Refunding Bonds.

Update for June 30, 2019 Audit:

During our review of the filing of continuing disclosure reports due on December 31, 2018 for the year ended June 30, 2018, we noted that the City did not file the June 30, 2018 annual reports for the 2012 Water Refunding Bonds and the 2012 Sewer Refunding Bonds until July 26, 2019.

Update for June 30, 2020 Audit:

During our review of the filing of continuing disclosure reports due on December 31, 2019 for the year ended June 30, 2019, we noted that the City did not file the June 30, 2019 notice stating that the annual reports for the 2009 and 2012 Sewer Refunding Bonds would be filed once the fiscal year 2019 financial statements were issued until May 10, 2021, and the 2012 Water Refunding Bonds until May 3, 2021.

Update for June 30, 2021 Audit:

During our review of the filing of continuing disclosure reports due on December 31, 2020 for the year ended June 30, 2020, we noted that the City did not file the reports for the 2012 Water Refunding Bonds and the 2012 Sewer Refunding Bonds until May 3, 2021 and May 10, 2021, respectively. We did note the City filed the fiscal year 2020 financial statements for both Bonds on March 24, 2022, which was shortly after the financial statements were issued on March 11, 2022.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-004 Timely Filing of Continuing Disclosure Reports (Continued)

Update for June 30, 2022 Audit:

During our review of the filing of continuing disclosure reports due on December 31, 2021 for the year ended June 30, 2021, we noted that the City did not file the reports for the 2012 Water Refunding Bonds and the 2012 Sewer Refunding Bonds until January 31, 2022. We also noted the City filed the fiscal year 2020 financial statements for both Bonds on August 21, 2023, which was shortly after the financial statements were issued on August 8, 2023.

The City is not in compliance with the annual reporting requirements of the Bond covenants.

We understand the failure to report was due to staff turnover.

The City should develop procedures to ensure the Annual Reports are filed timely with MSRB.

Current Status:

The City has contracted out all continuing disclosure reporting. We anticipate this to be a reoccurring issue until such time that the Financial Statements are filed timely, and the required information is available for disclosure.

2014-002 Timely Preparation and Approval of Bank Reconciliations

Bank reconciliations are one of the most important internal controls a 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 bank statement month end.

We reviewed the City's December 2013 bank reconciliations and noted they were not completed until late February 2014 as follows: Payroll Account - February 27, Section 125 (Aflac) Account - February 24, Police Account - February 24 and Workers Compensation Account - February 20. We were unable to determine the completion or review date of the General Account, as there was no date noted, however it appears to have been mid-February due to the print date on the paper backup.

We reviewed the City's January 2014 bank reconciliations for the same accounts, and it is also unclear as to when they were completed as the preparer and reviewer sign-offs are not dated, however it appears they were completed in mid-March due to the print dates on the paper backup.

Finally, we noted that the April 2014 bank reconciliations for the accounts were not completed as of June 10, 2014. With such a delay, any errors, misstatements and/or unauthorized activities may not be identified in a timely manner or corrected accordingly.

We understand the delay in preparing the bank reconciliations was due to the implementation of the utility billing module of the New World System on January 1, 2014 impacting all Finance staff. In addition, we understand there was a turnover in staff during the month of February 2014 and the transition period impacted the timely preparation of the bank reconciliations.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2014-002 Timely Preparation and Approval of Bank Reconciliations (Continued)

The City should implement procedures to ensure the timely preparation of the bank reconciliations and ensure that preparation dates and signatures are visible on the reconciliations.

Update at June 30, 2015: We reviewed the City's December 2014 bank reconciliations for the following accounts and noted there was no indication of the date they were prepared, and they were not reviewed until March 2015 as follows: Section 125 (Aflac) Account – March 21, Police Account – March 13 and Workers Compensation Account – March 21. The December 2014 General Account and Payroll Account reconciliations were not prepared or reviewed until May 6 and April 16, respectively.

We also reviewed the City's January 2015 bank reconciliations for the following accounts and noted there was no indication of the date they were prepared, and they were not reviewed until March 2015 as follows: Section 125 (Aflac) Account – March 21, Police Account – March 21 and Workers Compensation Account – March 31. The January 2015 General Account and Payroll Account were not prepared or reviewed until May 12 and May 6, respectively. And, during our review of the General Checking account June 2015 reconciliation, we noted it was not prepared and reviewed until September 10, 2015 and September 15, 2015, respectively.

We understand the delay in preparing the bank reconciliations was due to the Finance Department being short staffed from July 2014 through March 2015 and that an employee was hired in March 2015 and is in training to assume the bank reconciliation duties.

Update for June 30, 2016 Audit:

In June 2016, we reviewed the City's December 2015 bank reconciliations and noted they were not prepared and reviewed until late February or early March 2016 as follows: General Checking Account - February 29, Section 125 (Aflac) Account – March 1 and Workers Compensation Account - February 29.

We understand the delay in preparing the bank reconciliations was due to the turnover of staff and new employees being trained to complete the process which impacted the timely preparation and review of the bank reconciliations.

In October 2016, we reviewed the City's June 2016 bank reconciliations for the same accounts. We found that the reconciliation for the General Checking account was prepared and reviewed on a timely basis. As for the Section 125 and Worker's Compensation Accounts bank reconciliations, they were prepared timely and reviewed by October 2016. However, we could not determine when the preparation or review took place as the preparers and reviewers did not indicate such on the reconciliations.

Update for June 30, 2017 Audit:

We again selected bank reconciliations for testing for timely preparation and proper approval and noted following:

- The City's November 2016 bank reconciliation for the General Checking Account was not prepared until March 7, 2017 and were not reviewed until March 15, 2017. Additionally, the Payroll Section 125 Reimbursement Account was signed off as prepared and reviewed, although there is no indication of the date it was prepared and reviewed.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2014-002 Timely Preparation and Approval of Bank Reconciliations (Continued)

- The City’s March 2017 bank reconciliations for the General Checking, Payroll Checking, Section 125 Payroll Reimbursement Account, and Workers Compensation Account were not prepared and reviewed until June 2, 2017 and June 5, 2017, respectively.
- During our testing of the City’s June 2017 bank reconciliations, it was noted that the City’s reconciliation of the general checking account was not prepared and reviewed until October 1, 2017. Additionally, it was noted that there was no indication of who prepared or reviewed the June 2017 Successor Agency bank reconciliation, or the date that it was prepared or reviewed.

Update for June 30, 2018 Audit:

We again selected bank reconciliations for testing for timely preparation and proper approval and noted following:

The City’s December 2017 bank reconciliations for the General Checking, Payroll Checking, Successor Agency Check, and Workers’ Compensation Checking Accounts were not prepared or reviewed until March 5, 2018. Additionally, the Payroll Section 125 Reimbursement Account December 2017 bank reconciliation was not prepared and reviewed until March 9, 2018.

Furthermore, the City’s February 2018 bank reconciliation for the General Checking Account was not prepared and reviewed until May 14 and 15, 2018, respectively.

According to City staff, the reason for the delay was due to staff changes in the Finance Department during the current year.

Update for June 30, 2019 Audit:

We again selected four months for testing of timely preparation and review and noted the bank reconciliations for August 2018, November 2018, March 2019 and June 2019 were prepared and reviewed within thirty to forty-five days of bank statement month end.

Current Status:
See 2020-002.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2012-02 Internal Controls – Segregation of Duties

This comment is an update of matters repeated in prior years as discussed in Significant Deficiency 2010-03, which is not repeated in this report, since it is substantially redundant with our comments below.

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.

a. Super-User Status in the General Ledger System

Accounting staff should not normally be allowed to have Super-User rights in the City's general ledger system. We noted that three City employees (the Finance Director, the Accounting Manager, and the Deputy Director of Finance) have super-user rights to the HTE SunGard 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 (i.e., unauthorized adjustments could be made to the general ledger). In addition, unauthorized transactions could be processed without proper review and approval. While we understand the City has a limited number of staff available to provide system administration functions, the City should consider restricting super user rights to as few employees as possible. 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 employees.

b. Reviewing Changes to Vendor Database

The Accounts Payable Senior Accounting Technician processes accounts payable, mails the checks, and has access to the vendor database. Although the check registers are reviewed, there is no review of the vendor database for additions or modifications. An employee other than the Senior Accounting Technician should review the vendor database periodically and approve all additions and modifications.

c. Reviewing Changes to Employee Database

The Payroll Clerk processes payroll, and although she cannot add new employees to the employee database, she can modify data within the database. Although the payroll registers are reviewed, there is no review of the employee database for modifications. An employee other than the Payroll Clerk should review the employee database periodically and ensure all modifications have been approved.

Update for 2013, 2014 and 2015 Audits –We again noted the lack of segregation of duties associated with super users and reviewing changes to the vendor and employee databases.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2012-02 Internal Controls – Segregation of Duties (Continued)

With such access to the databases, there is a risk of unapproved changes being made to the vendor or employee databases. Ideally, the access to the various databases should be removed from the employees involved with processing the above transactions. In the event that is not possible, another appropriate employee should review the applicable databases periodically to ensure all additions, deletions and modifications have been approved.

We understand the New World System accounting software does not currently have the capability of producing reports of changes made to the various databases. Again, if the access to the databases cannot be removed from the employees noted, when these database changes reports are available, they should be generated during the review process for each applicable area and reviewed in detail to ensure all modifications were accurate and approved.

Update for June 30, 2018 Audit:

a. Super-User Status in the General Ledger System

Not implemented. We noted that same three City staff positions still have super-user rights to the New World System.

b. Reviewing Changes to Vendor Database

Implemented.

c. Reviewing Changes to Employee Database

Although the payroll registers are now reviewed, if changes to the employee database are completed without backup being provided, the change may go unnoticed. The City should develop a process to ensure that the Accounting Manager is alerted to any changes that are made to the employee database.

Update for June 30, 2019 Audit:

a. Super-User Status in the General Ledger System

Not implemented. We noted that same three City staff positions still have super-user rights to the New World System.

b. Reviewing Changes to Vendor Database

Implemented.

c. Reviewing Changes to Employee Database

Implemented.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2012-02 Internal Controls – Segregation of Duties (Continued)

Update for June 30, 2020 and 2021 Audits:

a. Super-User Status in the General Ledger System

Not implemented. We noted that three City staff positions still have super-user rights to the New World System.

b. Reviewing Changes to Vendor Database

Implemented.

c. Reviewing Changes to Employee Database

Implemented.

Current Status:

a. See 2019-004

b. Implemented.

c. Implemented

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**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2021-007 Capital Assets Inventory

The City should complete a physical inventory of their capital assets once a year to ensure that capital assets records are complete and physical assets are safeguarded. In the event a full inventory is not feasible, the City should cycle through asset categories or departments on an annual basis to ensure that all assets are periodically inventoried.

We understand the City has not completed a physical inventory in at least the last two fiscal years.

We understand the City's staffing shortage and staff turnover made it difficult to complete a physical inventory of the capital assets.

The City should develop procedures to perform a capital assets inventory once a year, or on a rotational basis, to ensure that capital assets record is accurate.

Current Status:

Agree. During FY 25, the City will work on development of an inventory and capital asset policy which will include a physical inventory, procedures for disposal of obsolete assets, a search for additional assets, and compliance with grant/federal requirements.

2021-008 Accounting for Outstanding Checks

The City's policy for handling outstanding checks is that the City follows up with the payee on a monthly basis after checks have been outstanding for more than 6 months to see if the check needs to be reissued. If there is no resolution with the payee regarding the outstanding check, the City will void the check and the funds will be returned to the City's general account using the State's escheatment procedures.

We reviewed the Open Payment Report that includes the outstanding checks for the March 2021 Bank Reconciliation for the General Account and noted numerous checks that date back to April 2016.

We understand that due to staff turnover and being behind on daily tasks, City staff has not been following up on outstanding checks, which is not in compliance with the City's policy.

Detailed outstanding checks listings should be periodically reviewed for checks outstanding for more 180 days and City staff should determine whether those checks should be reissued or written off in accordance with the City's policy.

Current Status:

Agree. In FY 22 outstanding checks were reviewed and letters were sent to payees by the Accounting Technician. In addition, an overall review of the outstanding checks was completed by the Accountants. It was noted that some of the checks still listed were paid from the prior banking institution and as such the escheatment process was followed to clear those from the register and return the funds. Finally, during FY 24 staff has been reviewing outstanding checks, following up with recipients, and processing reissued checks accordingly.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2020-009 Timely Updating of Bank Account Signature Cards

Signature cards for the bank and investment accounts should be updated timely when there are changes in authorized signers.

During our review of authorized signers in June 2020 for the Union Bank and Local Agency Investment Fund (LAIF) accounts, we noted that the previous Finance Director and Deputy Finance Director were still listed as authorized signers on the accounts even though they had departed the City in November 2019 and May 2019, respectively. We noted that the authorized signers for those accounts were not updated until August 2020. In addition, the Wells Fargo Bank account included the same signers, and the authorized signers were not updated until April 2020.

We understand certain changes were not made timely due to the City experiencing turnover in the upper management positions during the fiscal year.

Keeping terminated employees as authorized signers on the City's bank and investment accounts exposes the City to the risk of misappropriation of assets.

The City must immediately remove the former employees from the authorized signer lists of all bank and investment accounts. In the future, a step should be added to the employee departure checklist or process to ensure that outside parties (such as banks and investment advisors) are informed that the departed employee no longer represents the City.

Update for June 30, 2021 and 2022 Audits:

The Local Agency Investment Fund authorized users were updated, but the Union Bank account (now U.S. Bank) was not updated as of August 2022.

Current Status:

Staff agrees with the immediate need to remove former employees from authorized signer lists of all bank and investment accounts. Procedures will be added to ensure prompt removal and additions of authorized signers on all bank and investment accounts. Staff has made a comprehensive effort during Fiscal Year 2024 to update authorized signers for Wells Fargo Bank, LAIF, U.S. Bank, PFM and CAMP. Since each entity have their own procedures and steps to change authorized signers, the timing of the process varies by entity. However, by end of Fiscal Year 2024, authorized signers should be updated for all the above listed entities.

2020-011 Consistency of Public Facilities Improvement Program Accounting

The City has developed a Public Facilities Implementation Plan (PFIP) to ensure that public facilities are adequate and constructed in accordance with the adopted master plans for water, sewer, storm drainage and traffic as the City grows and develops in accordance with its General Plan. Development Impact Fees are collected at or near the time of development and are used wherever practical to finance the expansion of infrastructure necessary to accommodate the demand for new capacity. In certain cases, developers may construct public improvements that are in the PFIP and enter into reimbursement agreements with the City. Developers are then granted credit against the fees owed or are reimbursed any remaining amounts owed to the developer by the City when sufficient funds are available from future development impact fees paid by subsequent development that benefit from the available improvements.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2020-011 Consistency of Public Facilities Improvement Program Accounting (Continued)

As of June 30, 2020, the City had outstanding reimbursement commitments totaling \$25,619,197, that are reported as contracts payable in the City’s financial statements. Related to those contracts payable, interfund advances between the Public Facilities Improvement Plan, General Fund, Water, and Sewer Funds are recorded in the general ledger that are expected to be repaid out of future developer fees.

The City tracks the activity related to the developer commitments in a spreadsheet, but the spreadsheet does not connect that activity with the balances of the interfund loans and some of the contracts payable are recorded as fund liabilities, while others are considered long-term liabilities.

We understand that due to the staff turnover, the City has not documented when balances should be recorded as a fund liability versus a long-term liability and when the interfund advances should be repaid.

The City should develop policies and procedures around the accounting for the PFIP activities, to ensure that all transactions and balances are recorded consistently and documented for future reference.

Current Status:

A retired annuitant has been hired to assist in reconciling the PFIP programs to ensure accuracy of all balances and timing of payments. With this retired annuitant’s help, staff has been actively working on updating the Master PFIP tracking sheet to reconcile and evaluate all outstanding liabilities to developers. This effort should be completed by end of Fiscal Year 2024. Staff will then focus on refunding developers based on available funding amongst the PFIP funds. In consideration of paying developers, staff will also evaluate the ability of paying down interfund loan balances.

2020-012 Timely Payment of Disbursements

Payments to vendors should be made timely, usually within thirty to forty-five days of receiving the related invoice from the vendor.

During the audit we selected 25 disbursements to test for compliance with the City’s Purchasing Policy and timeliness of the payments. We noted one disbursement in the amount of \$346,651 that was paid in November 2019 for a lease payment for the period July 1, 2018 through June 30, 2019.

When invoices are not paid timely, it increases the likelihood of late fees from the vendor and increases the risk that errors or misstatements surrounding the invoice may occur.

City staff stated that the invoice was paid late due to the turnover in staffing in the Finance Department during the fiscal year.

The City should develop procedures to ensure that all invoices are paid timely, usually within thirty to forty-five days after being received by the Finance Department.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2020-012 Timely Payment of Disbursements (Continued)

Update for June 30, 2021 Audit:

During the audit we selected 40 disbursements to test for compliance with the City’s Purchasing Policy and timeliness of the payments. We noted three disbursements that were not paid timely as follows:

- \$68,925 that was paid in March 2021 for project construction costs incurred in October and November 2020.
- \$449,661 that was paid in March 2021 for project construction costs incurred in December 2020.
- \$382,652 that was paid in June 2021 for project construction costs incurred in February 2021.

City staff indicated that the invoices were paid late due to an employee working remotely and staff illness.

The City should develop procedures to ensure that all invoices are paid timely, usually within thirty to forty-five days after being received by the Finance Department.

Current Status:

Implemented

2020-013 Filing Timely Grant Reimbursement Requests

Grant reimbursement requests should be filed shortly after the associated grant expenditures are incurred.

During the audit, we noted that the Fire Grants Special Revenue Fund had actual expenditures of \$88 thousand and no revenue.

We understand that the City had incurred expenditures under the Staffing For Adequate Fire and Emergency Response (SAFER) grant, but no drawdowns were completed during fiscal year 2020 or subsequent. We also understand the grant reimbursement requests were not anticipated to be filed until fiscal year 2022.

City staff indicated that due to the turnover of employees in the Finance Department during the fiscal year, the City did not complete the reimbursement requests.

Update for June 30, 2021 Audit:

The grant reimbursements for the SAFER program were not completed during the year ended June 30, 2021. In addition, the filing of reimbursement requests for the federal transit authority program were not completed in fiscal year 2021.

Update for June 30, 2022 Audit:

The grant reimbursements for the SAFER program were not completed during the year ended June 30, 2022. In addition, the filing of all reimbursement requests for the federal transit authority program fiscal year 2022 activity was not completed in fiscal year 2022.

Late grant draws could jeopardize grant funding if the costs are not claimed during the period of performance specified in the grant agreement.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2020-013 Filing Timely Grant Reimbursement Requests (Continued)

The City should develop procedures to ensure that grant reimbursement requests are filed on a monthly or at least quarterly basis, to ensure that grant funding is not jeopardized and to improve cash flow.

Current Status:

Staff recognizes grant reimbursement requests have not been timely. Staff turnover in key positions have left grant management without proper attention. Staff is working on developing grant management policies and procedures to ensure reimbursement requests occur timely and documented thoroughly.

2020-015 Monitoring Loans Receivable for Collectability

The City should have a process in place to monitor the collectability of the City's loans receivable to ensure payments are collected and recorded timely.

In our conversations with City staff during the audit, we noted that the City does not have procedures in place to monitor outstanding loans receivable balances for collectability, to make sure payments are collected and recorded timely or to monitor compliance with the terms of loan covenants.

Without procedures in place to monitor the activity and compliance of the loans receivable balances, loan activity may not be accurately recorded in the general ledger, loan payments may not be collected timely, and loans may be out of compliance with required covenants.

City staff stated that with the high amount of employee turnover in the Finance Department, the City had not been able to monitor the loans receivable balances.

The City should develop procedures to monitor the balances, activity and covenants associated with outstanding loans receivable balances. The procedures should be communicated to City staff and a process should be put in place for the monitoring to occur.

Current Status:

Staff agrees with the need to develop procedures to monitor balances, activities, and covenants associated with outstanding loans receivable balances. Staff will research best practices, establish a policy, and monitor activity. In addition, Finance is working the City Attorney in regard to collectability on some of the former Redevelopment Agency loans.

2020-017 Tracking and Recording Retentions Payable

The City should track and record the amount of retentions payable for ongoing City projects that have not been deposited into an escrow account.

As project costs are incurred, the City reduces the amount paid to each vendor at the time of invoicing by the applicable retainage amount (usually 5-10% of the gross invoice amount), however, we understand that City staff does not track the individual retentions payable and the retentions payable are not recorded in the general ledger until they are paid to the vendor at the end of the project.

**CITY OF MANTECA
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2020-017 Tracking and Recording Retentions Payable (Continued)

If the City does not track and record the balance of retentions payable for ongoing City projects, the general ledger will be understated for the amount owed to vendors at any given time, which could be significant if many capital projects are in process.

City staff stated that due to the turnover of employees in the Finance Department during the fiscal year, the City did not track and record retentions payable.

The City should develop processes to track retentions payable for all applicable projects and record the balance of retentions payable in the City's general ledger.

Current Status:
Implemented.

2016-003 Information Technology Best Practices Recommendations

We conducted an Information Systems Review with our audit which encompassed the City's financial information system and the network environment that houses it. Our work goes beyond simply looking at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever-increasing sophistication of hackers and criminals.

Currently, there are no Information Technology standards to which local governments are required to conform. Indeed, there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff have reviewed these informal guidelines and concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) are the most appropriate for local government¹. NIST and FISMA represent the minimum security requirements for federal government agencies information systems. NIST recommends these for state and local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

While the results of our work did not indicate material weaknesses, we noted a few areas which could be improved. A summary of these recommendations which we believe are "best practices" are as follows:

¹ "State, local, and tribal governments, as well as private sector organizations are encouraged to consider using these guidelines, as appropriate." NIST SP 800-37 Rev 1 pg 11

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
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2016-003 Information Technology Best Practices Recommendations (Continued)

Payment Card Industry Compliance

The City is not in compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Any organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance requirements results in higher transaction fees and liability if a security breach is found. Because the City accepts credit cards as a form of payment, the City must be compliant with the applicable controls.

Update for June 30, 2017, 2018, 2019, 2020, 2021 and 2022 Audits:

We again noted that City is still not in compliance with the Payment Card Industry Data Security Standard.

Current Status:

The City was PCI compliant for part of FY 22, but a subsequent scan revealed additional vulnerabilities that we are working with IT to correct. In addition, the current merchant payment processor is no longer functional as of the end of August 2023. As of April of 2024, the City is using a new merchant processor which is PCI compliant.

2015-008 Compliance with Health and Safety Code Reporting Requirements for the Housing Successor

This comment is an update of matters repeated in prior years as discussed in Other Matter 2014-008, which is not repeated in this report, since it is substantially redundant with our comments below.

Senate Bill No. 341 (SB341) was approved on October 13, 2013 and amended and added to the Health and Safety Code (HSC) effective January 1, 2014 to change provisions relating to the functions performed by a Housing Successor. Part of SB341 added HSC Section 34176.1 that imposes annual reporting requirements related to the housing assets of the former Redevelopment Agency held by the Housing Successor.

The City serves as Housing Successor for the housing activities of the former Manteca Redevelopment Agency and the activities of the Housing Successor are reported in the Low and Moderate-Income Housing Assets Special Revenue Fund.

Under the reporting requirements, the Housing Successor is required to include eleven points of information for the previous fiscal year in the City's annual report of the General Plan Administration due each April 1 (Government Code Section 65400) and post the same eleven points of information on the City's website. In addition, certain information included in Section 34176.1(a)(3) is to be included in the report every five years.

The reporting information began with fiscal year 2014 reporting that was due to the Department of Housing and Community Development (HCD) and to be posted to the City's website by April 1, 2015. However, the City did not prepare the required report for submission to HCD or posting to the City's website.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2015-008 Compliance with Health and Safety Code Reporting Requirements for the Housing Successor (Continued)

The City, as Housing Successor, should file the fiscal year 2014 report as soon as possible and develop procedures to ensure ongoing compliance with the annual reporting requirements of HSC Section 34176.1

Update for June 30, 2016, 2017 and 2018 Audits:

During the audits, we followed up on the status of the above condition. We noted that the deficiency had not been mitigated.

Update for June 30, 2019 Audit:

We noted that the City filed the required report for the year ended June 20, 2018 in April 2019, but we understand the other delinquent reports were not filed.

Update for June 30, 2021 Audit:

It appears that the City did not file the required report for the year ended June 20, 2020 and the report was not posted to the City's website.

Update for June 30, 2022 Audit:

It appears that the City did not file the required report for the year ended June 20, 2021 and the report was not posted to the City's website. The City should file the required report and the City should work with HCD to determine if the 2021 report and the other delinquent reports are required to be prepared and filed.

Current Status:

Due to staff turnover, current staff was unaware of this requirement and will make an inquiry of HCD as to the next steps.