

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

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

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## MEMORANDUM ON INTERNAL CONTROL

To the City Council of  
the City of San Pablo, California

In planning and performing our audit of the basic financial statements of the City of San Pablo (City) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control included on the Schedule of Significant Deficiencies to be a significant deficiency.

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 Schedules. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California  
December 12, 2023

**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCY**

**2023-01: Springbrook System Access Permissions and Review of Access**

**Criteria:**

A system super-user is an individual who has full access over the City's financial system including all modules and all functions. This type of access should be limited to as few people as possible and system access should be regularly reviewed to ensure only authorized functions and groups have appropriate access. Furthermore, access to the general ledger system should be removed immediately after an employee departs the City.

**Condition:**

During the current year audit, the City determined that when the Springbrook system migrated to a cloud hosted solution in 2013, the system was set up with "no security default", which is similar to super-user access. Upon further review into this issue, City staff noted that the default user group, which every City user belongs to, had no security set, thereby allowing every user full access to Springbrook modules. We noted during our audit that the access log used to review appropriate system access had various access levels to various systems, processes and menu items within Springbrook. However, because of the original set up of the Springbrook system to no security default, the access log is not reflective of the fact that all Springbrook users are super-users.

We also selected four terminated employees for testing of timely removal from the payroll system and general ledger access in fiscal year 2023, and noted that the logins of two former employees were not terminated in Springbrook (general ledger) system.

Upon discovering the issue, the IT Department reviewed reports and concluded **there were no breaches detected in Springbrook.**

**Cause:**

The system was not set up with any security default when the City migrated to a cloud solution in 2013 and this went unnoticed by the IT department until discovery of the above issue in the current year. For the removal of access for the terminated employees, City staff indicated that the issue was due to an oversight in removing the employees from the access log in a suitable timeframe.

**Effect:**

There is a potential risk for unauthorized Springbrook access to modules, including potentially unauthorized adjustments and/or transactions in the general ledger. When terminated employees remain in the general ledger system, there is a risk that another employee with active network access could use the terminated employee's credentials to access the general ledger system.

**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCY**

**2023-01: Springbrook System Access Permissions and Review of Access (Continued)**

**Recommendation:**

While there were no breaches detected in Springbrook, the IT Department should immediately work with Springbrook to ensure that a security default is set in the system. The City should also review permissions for all users to ensure that each user's access is appropriate and restrict access to any modules that are not necessary for that user's job function. The IT Department should also work with Springbrook to design a report that will indicate the security settings for each user and develop a procedure to review system access periodically to ensure that access is appropriate. The IT Department should also review settings and access following any significant software or system update.

Lastly, the City should implement procedures to ensure timely removal of departed employees from the general ledger system and the system access log should be periodically reviewed to ensure only active and appropriate employees have change access to the general ledger system.

***Management's Response:***

The City will review the recommendation closely and will implement "best practice" policies and procedures to ensure the Springbrook system access permissions are appropriate, maintained, and given periodic review.

## CITY OF SAN PABLO

### 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 have cited 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*, 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

## CITY OF SAN PABLO

### MEMORANDUM ON INTERNAL CONTROL

#### SCHEDULE OF OTHER MATTERS

##### **GASB 99 – Omnibus 2022 (Continued)**

- 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 as Follows:**

The requirements in paragraphs 26–32 related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

The requirements in paragraphs 11–25 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

The requirements in paragraphs 4–10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by individual topic.

##### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to more easily locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

CITY OF SAN PABLO

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 SAN PABLO

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 SAN PABLO**

**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.

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**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR MATERIAL WEAKNESSES**

**2022-01: Year-End Close Difficulties Due to Finance Staff Turnover**

**Criteria:**

Well-managed organizations should develop procedures that are well-documented, and have a plan in place to ensure that adequate resources will remain available in the event of employee departures. Part of that plan is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially within the Finance Department. The procedures should be well-documented so that when there is turnover, the background, information and data are all available to anyone that comes in to fill the vacant positions, as 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.

**Condition:**

The City's Finance Department has experienced a significant amount of turnover in the Director and Accounting Manager positions over the last several years. This caused there to be significant control weaknesses from July 2021 to January 2022 before the new finance team was brought in.

While the current year's closing procedures were significantly improved from the previous year, due to the lack of documentation of procedures and background information performed historically, we have noted it has been difficult for incoming personnel to reconcile prior year and current year balances. This required the current finance team to look deeper into the City's finances which did require additional cleanup to ensure accuracy.

Areas that had control issues between July 2021 and January 2022 are noted below.

- Journal entries – not properly reviewed or reviewed timely by personnel possessing the adequate level of skills and knowledge to determine if they are accurate and for the correct time period
- Bank and investment reconciliations are not being prepared and reviewed in a timely manner (see Finding 2022-02)
- Investments – fair market value of investments has not been adjusted correctly, requiring significant reclassifications and adjustments
- Successor Agency transactions not properly recorded prior to the audit, including debt transactions and transactions between the City and the Successor Agency
- Land and debt transactions between the City and the EDC not properly recorded prior to audit
- Lack of documentation of review of check and payroll registers (see Finding 2022-02)

**Effect:**

The above condition required the current finance staff to extensively review additional information in the City's financial system to ensure the accuracy of the information. This resulted in a significant amount of audit adjustments that required following the year-end close as City staff worked to clean up the issues discussed above. During the extensive review and due diligence, the current finance staff discovered the following:

- 1) \$3.30 million transferred back to the General Fund from Fund 320
- 2) \$1.472 million of previously recorded Unearned Revenue related to Rumrill
- 3) Settlement with DOF in the amount \$1,996,683 which paid back the General Fund for the advances it made to the Successor Agency

**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR MATERIAL WEAKNESSES**

**2022-01: Year-End Close Difficulties Due to Finance Staff Turnover (Continued)**

**Cause:**

The additional work has been impacted by the following:

- Turnover within the Accounting Manager and Director positions
- Lack of capacity due to vacant positions or staff leave
- Lack of effective review of reconciliations and journal entries when the City was in the transition between July 2021 and January 2022.

**Recommendation:**

We understand that beginning February 2022 and with the new Finance team, the City has implemented new procedures during the last half of the fiscal year ended June 30, 2022 and has corrected the issues mentions above. The due diligence work performed by the new Finance staff has resulted to \$6.7 million in favor of the General Fund but we recommend that the City continue to analyze staff resources to determine what additional plans can be made to ensure that the financial data is processed properly and timely during staffing transitions.

We understand that the City is currently doing monthly soft close of the financials which includes the bank and investment reconciliations, journal entries and monthly general ledger review. In addition, the City has also implemented new policies and procedures for ensuring the timeliness and accuracy reviews of significant accounting functions.

***Current Status:*** Implemented.

**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR MATERIAL WEAKNESSES**

**2021-01: Timeliness and Accuracy of Year-End Close Due to Finance Staff Turnover**

**Criteria:**

Well-managed organizations should develop procedures that are well-documented, and have a plan in place to ensure that adequate resources will remain available in the event of employee departures. Part of that plan is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially within the Finance Department. The procedures should be well-documented so that when there is turnover, the background, information and data are all available to anyone that comes in to fill the vacant positions, as 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. In addition, when recruiting for Finance, it is imperative to seek candidates that have the appropriate skills, knowledge and experience to perform the functions for the position they are filling. Especially in smaller organizations with minimal Finance staff, it is particularly beneficial if each position has municipal accounting depth.

**Condition:**

The City's Finance Department has experienced a significant amount of turnover in the Accounting Manager position over the last several years, and just this last year, in the Director position as well. This has put a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data.

While the current year's closing procedures were dramatically improved with the hiring of a Finance Director that had the skills, knowledge and experience in municipal accounting, due to the lack of documentation of procedures and background information performed historically, we have noted it was difficult for incoming personnel to reconcile prior year and current year balances, causing the City's staff to seek past reconciliations and information from the auditors. As the auditors are not a party to the City's internal controls, it is imperative that documentation of procedures and financial activities be made a priority. We also understand that there will once again be turnover within the City's Finance Department, and therefore, we wanted to summarize some of the significant issues that we have noted in the past, in order to assist the incoming personnel with prioritization of accounting concerns.

Areas that we have noted over the last few years that have suffered include:

- Journal entries – not properly reviewed by personnel possessing the adequate level of skills and knowledge to determine if they are accurate and for the correct time period
- Capital assets – spreadsheets are cumbersome and not adequately updated, requiring restatements and/or significant reclassifications
- Land and debt transactions between the City and the EDC not properly recorded prior to audit
- Loans receivable – lack of communication from other departments to address the need to record the loans on the general ledger
- Accruals for receivables and payables not properly recorded prior to the audit
- Schedule of Expenditures of Federal Awards – not properly updated for expenditures incurred during the fiscal year

CITY OF SAN PABLO

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

**2021-01: Timeliness and Accuracy of Year-End Close Due to Finance Staff Turnover (Continued)**

- Review of Financial Statements – not completed timely or accurately, causing restatements in subsequent years
- Delays in preparation for audit fieldwork, causing delays in issuance of financial statements
- Lack of review of vendor and employee databases (see Finding 2021-02)
- Lack of documentation of review of check and payroll registers (see Finding 2021-02)

**Effect:**

The above condition has caused delays in the City’s preparedness for audit, and significant audit adjustments, restatements and reclassifications required following the year-end close. These conditions have increased the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely matter. As a result, audit efforts have been significantly increased in response to these increased risks.

**Cause:**

The errors and timeliness have been impacted by the following:

- Turnover within the Accounting Manager and Director positions
- Lack of municipal accounting depth
- Lack of capacity due to vacant positions or staff leave
- Lack of effective review of reconciliations and journal entries

**Recommendation:**

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. The City must also 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. This analysis should include an assessment of the municipal accounting depth required for each position, or a consideration of updated and/or additional positions needed to adequately process all of the City’s transactions.

***Current Status:*** Implemented.

CITY OF SAN PABLO

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2022-02: **Bank and Investment Reconciliations, Accounts Payable and Payroll Controls – Review/Approval and Documentation**

**Criteria:**

Bank and investment reconciliations are an important element of a City's internal control structure. In order to be an effective control, the City should complete bank reconciliations as soon as possible after each month-end, usually within thirty to forty-five days of receiving the statement, and the reconciliations should be subsequently reviewed by another party for accuracy and/or unusual items.

Furthermore, there should be segregation of duties for all transaction cycles, so that the personnel performing duties related to processing transactions, such as accounts payable and payroll, are not involved in the review process. In order to maintain a proper audit trail, there should be documentation of segregation of duties, including the date in which the control activities occurred.

**Condition:**

During our audit, we noted that the July 2021 through September 2021 bank reconciliations were not prepared and reviewed until January 2022 for the general checking, credit card, payroll, asset seizure and investment accounts.

Furthermore, during our review of the City's check and payroll registers, we noted we noted that there was no audit trail documenting review of payroll registers, check logs, and accounts payable registers from July 2021 through December 31, 2021.

We noted that once the current finance team started at the City in January 2022, they got the reconciliations current and have maintained timely reconciliations and review for the remainder of the fiscal year.

**Cause:**

Per City staff, the above conditions were due to staff oversights during the timeframe of July 2021 through December 31, 2021 but MOIC was mitigated with the new finance team starting in January 2022. **Subsequent reviews were done timely and accurately.**

**Effect:**

When there is a lack of segregation of duties and lack of detailed review, it increases the likelihood that material misstatement, unauthorized transactions, errors, or potential fraud may occur and not be prevented or detected and corrected timely.

**Recommendation:**

We noted that the City developed timely processes of preparation and review from January 2022 through June 2022 over bank reconciliations, check registers and payroll registers, we recommend the City continue to ensure that these processes are completed timely going forward. Furthermore, we recommend that the City document these processes internally to ensure that there is a backup process in place during periods of staff turnover.

***Current Status:*** Implemented.

**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES**

**2021-02: Accounts Payable and Payroll Controls – Review/Approval and Documentation**

**Criteria:**

Ideally, there should be segregation of duties and access for all transaction cycles, so that the personnel performing duties related to processing transactions, such as receipts, accounts payable and payroll, do not also have access to the databases related to these transaction cycles. When access cannot be restricted due to capacity, there should be a procedure in place for another party to periodically review and approve any changes made to the database(s). In addition, the review of the databases, as well as the review of any correlating registers should be formally documented, including the date of the review and approval.

**Condition:**

During our review of City staff's access to the financial system, we noted that multiple staff have access to the vendor and employee databases, including the staff person who processes accounts payable, and the staff person who processes payroll. We were informed that Finance does not currently have a process to periodically review and approve changes made to the vendor database and employee database.

Furthermore, during our review of the City's check and payroll registers, we noted the following:

- Check logs and check registers dated December 3, 2020, February 18, 2021, and April 8, 2021, had documentation of review, however, the date of review was not documented.
- Payroll registers for pay periods ending October 15, 2020, March 15, 2021 and April 30, 2021 had no documentation of review.

**Cause:**

Per City staff, the access to the databases was changed, and the reviews were not being completed and/or not documented due to significant turnover in Finance and IT staff, as well as staff leave, which impacted the City's day-to-day operations, including the processes noted above.

**Effect:**

When there is a lack of segregation of duties and access, and lack of detailed review, it increases the likelihood of unauthorized transactions, errors, or potential fraud.

**Recommendation:**

We recommend the City designate a staff, who is not involved in the accounts payable and payroll processes, to periodically review and approve the changes to the vendor and employee databases, for each check run, making sure to formally document that the review was performed, including the date of the review. In addition, as changes are made to Finance personnel, access should be reviewed and updated to ensure adequate controls and restrictions are in place.

***Current Status:*** Implemented.

**CITY OF SAN PABLO**

**MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR OTHER MATTERS**

**2022-03: Timeliness of Grant and Reimbursement Billings**

**Criteria:**

The City has a number of projects that are fully or partially funded by grants on a reimbursement basis. As the City incurs related project costs, timely grant reimbursement requests should be prepared and filed with the grantor to minimize the time between disbursement and reimbursement. Cash management of grant funded projects is vital to the continuation and successful completion of the projects. If grant funds are not requested timely, the funding source may no longer have available funds for reimbursement or funds may be deprogrammed from the grantor.

**Condition:**

During our audit, we noted that grant reimbursements filed by the Public Works Department were being filed every quarter, semi-annually or annually, depending on the project.

**Potential Effect:**

Costs may not be associated with revenues in the same period. Furthermore, cash flow may be decreased without filing reimbursements more frequently and timely.

**Cause:**

Staff turnover.

**Recommendation:**

We recommend that the City develop procedures to ensure grant reimbursement requests are prepared on a timely basis, at least monthly, as costs are incurred not only to improve cash flow but to match expenditures with associated revenues in the same period.

***Current Status:*** Implemented.

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