

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

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**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

For the Year Ended June 30, 2023

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Significant Deficiency.....	3
Schedule of Other Matters	5
Status of Prior Year Significant Deficiencies	11
Schedule of Prior Year Other Matters	13

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MEMORANDUM ON INTERNAL CONTROL

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

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control included on the Schedule of Significant Deficiency 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 Schedule of Significant Deficiency and Schedule of Other Matters. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Maze & Associates

Pleasant Hill, California
November 20, 2023

**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF SIGNIFICANT DEFICIENCY

2023-01 Inaccurate Building Permit Fees – Prior Year Recommendation Not Implemented

During the current year audit, we followed up on the status of the Significant Deficiency identified on the Status of Prior Year Significant Deficiency Item 2022-01. We found that the deficiency has not been addressed as of June 30, 2023. Therefore, it is deemed to be a current year Significant Deficiency. Details of the deficiency and management's response is listed in the Status of Prior Year Significant Deficiency.

Management's Response:

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

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**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2023-02 Purchasing Policy Compliance and Clarification of Requirements - Prior Year Recommendation Not Implemented

During the current year audit, we followed up on the status of the Other Matter identified on the Status of Prior Year Other Matters Item 2022-02. We found that the matter has not been addressed as of June 30, 2023. Therefore, it is deemed to be a current year Other Matter. Details of the matter and management's response is listed in the Status of Prior Year Other Matters.

Management's Response:

See Management's Response to Current Year Status for the above matter as listed in the Status of Prior Year Other Matters.

**CITY OF SAN RAFAEL
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 RAFAEL
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 RAFAEL
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 RAFAEL
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 RAFAEL
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.

**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2022-01 Inaccurate Building Permit Fees

The rates charged in the City’s permit billing system should be consistent with the City’s Master Fee Schedule approved by City Council and on the City’s website.

As noted in the prior year Memorandum on Internal Control comment 2021-01, we again noted that the rates charged in the City’s permit billing system are not consistent with the City’s Master Fee Schedule approved by City Council.

During the fiscal year 2022 audit, we tested twenty-five receipts and recalculated the fees using the City’s Master Fee Schedule and noted five receipts for building permits that we recalculated, but could not arrive at the same amount charged. Based on our recalculations using the City’s Master Fee Schedule, the building permit fees that should have been charged, and the related amount undercharged were as follows:

Receipt Number	Building Permit Fee Charged	Building Permit Fee That Should Have Been Charged Based on Master Fee Schedule	Undercharged
003-00001681	\$3,997.00	\$4,820.20	\$(823.20)
017-00000203	2,317.00	3,140.20	(823.20)
017-00001783	1,210.00	1,714.00	(504.00)
003-00003680	918.10	1,251.64	(333.54)
003-00004064	947.50	1,285.60	(338.10)

We understand that the Community Development Department (CDD) staff determined that the Master Fee Schedule approved by City Council and posted on the City’s website included incorrect building permit fees and CDD staff believed that the correct fees had been charged.

We also noted one receipt for an investigation fee (receipt # 003-00003019) and one receipt for a building permit renewal fee (receipt # 017-00001262) that were not listed on the revised Master Fee Schedule, nor supported by an ordinance or resolution. The CDD staff indicated that the Master Fee Schedule is being updated to incorporate these fees that were charged.

Although City staff believe that the correct fees were charged for the building permits, investigation fee and building permit renewal fees, we were unable to verify that the correct fees were charged based on the Master Fee Schedule approved by City Council. Therefore, the City’s building permit fees, investigation fees, fire prevention inspection fees and building permit renewal fees revenues may be understated.

We understand that the City plans to present an updated Master Fee Schedule to Council to ensure that accurate charges are approved and presented on the City’s website. We recommend that the City develop a process to ensure that the fees approved by City Council are properly entered into the City’s permit billing system to ensure proper fees are charged. In addition, we recommend that the City ensure that the Master Fee Schedule on the City’s website agrees to the Master Fee Schedule approved by City Council.

**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2022-01 Inaccurate Building Permit Fees (Continued)

Current Status:

We understand that the City Council has approved an updated Master Fee Schedule, effective in July 2023, and that the City has developed a process to ensure that accurate fees were entered into the City's permit billing system and that charges were approved and presented on the City's website.

Management's Response:

The revised Master Fee Schedule was approved by council with the December 19, 2022, meeting, however, because the fee schedule related to fiscal 2023-24 the website was not updated until July 1, 2023, when it became effective. Subsequently, the City's various billing systems were reviewed for accuracy to ensure agreement with the approved schedule and no variances were noted.

2021-01 Inaccurate Building Permit Fees

The rates charged in the City's permit billing system should be consistent with the City's Master Fee Schedule approved by City Council and on the City's website.

We tested twenty-five receipts and recalculated the fees using the City's Master Fee Schedule and we noted one receipt for a building permit in the amount of \$78,946 that we recalculated, but could not arrive at the same amount. Based on our recalculation using the City's Master Fee Schedule, the building permit fee that should have been charged was \$83,137.

The Community Development Department (CDD) staff determined that the Master Fee Schedule approved by City Council and posted on the City's website included incorrect building permit fees and CDD staff believed that the correct fees had been charged, resulting in the fee of \$78,946.

Although City staff believe that the correct fees were charged, we were unable to verify that the correct fees were charged based on the Master Fee Schedule approved by City Council. Therefore, the City's building permit fees may be understated due to the use of a lower fee schedule.

We understand that the City plans to present an updated Master Fee Schedule to Council to ensure that accurate charges are approved and presented on the City website. We recommend that the City develop a process to ensure that the fees approved by City Council are properly entered into the City's permit billing system to ensure proper fees are charged. In addition, we recommend that the City ensure that the Master Fee Schedule on the City's website agree to the Master Fee Schedule approved by City Council.

Current Status:

See current year comment 2023-01 and Status of Prior Year Significant Deficiencies comment 2022-01.

**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR OTHER MATTERS

2022-02 Purchasing Policy Compliance and Clarification of Requirements

The City’s Purchasing Policy should indicate when the use of a purchase order, contract, or both is required, including any exceptions, as necessary. The City’s Purchasing Policy defines a contract as including, but not being “limited to, a purchase order, a contract for services, a contract for maintenance, leasing of property or equipment, an addendum or change order, a letter agreement, a memorandum of understanding, or memorandum of agreement.” The Purchasing Policy defines a purchase order as “a standardized form to be utilized in contracts for materials, supplies, labor and equipment.” The Purchasing Policy does not specify whether a purchase order and a contract are required for all purchases, but we understand it is the City’s practice to obtain both documents for purchases.

During the fiscal year 2022 audit, we selected twenty-five disbursements for testing of supporting documentation and compliance with the City’s Purchasing Policy and noted two disbursements for which the disbursements were supported by a contract, however, they were not supported by a purchase order. We also noted one disbursement that was supported by a purchase order, but not a contract. For similar types of transactions tested, we noted that these types of disbursements were supported by both a purchase order and a contract.

For one of the disbursements noted above, City staff indicated that the staff overseeing the initial project and contract is no longer with the City and that a purchase order was not created for the vendor and contract for the project due to a staff oversight. And, for the second disbursement noted above, City staff indicated that they did not think it was necessary for a purchase order to be created as the vendor is used for on-call repair sidewalk repair services. Lastly, for the third disbursement noted above, City staff indicated that the purchase order was created without a contract, due to a staff oversight. Although that appears reasonable, there does not appear to be such an exemption in the City’s Purchasing Policy for the use of a contract, purchase order or both. Therefore, the City is not in compliance with the Purchasing Policy for these purchases.

We recommend that the City ensure all purchases comply with purchase documentation requirements and revise the Purchasing Policy to clarify those requirements to reflect current practices.

Current Status:

During our fiscal year 2023 audit, we noted that the City has not revised the Purchasing Policy to clarify when a purchase order, contract, or both are required, as well as any broad exemptions. We also noted that the City has not developed a process to ensure that all purchases comply with purchase documentation requirements of contracts and purchase orders as the process still remains decentralized.

Management’s Response:

Management concurs with the need to update the City’s Purchasing Policy and procedures to ensure appropriate level of internal controls, compliance with policy requirements and alignment with best practices. This effort has been hampered by staff turnover, vacancies in key positions and competing priorities. Current management has prioritized review of purchasing and contract administration protocols, to include updating policies, documentation of procedures, staff training and better utilization of the City’s financial ERP system to monitor approvals, activity, and compliance.

**CITY OF SAN RAFAEL
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR OTHER MATTERS

2022-03 Current Contracts

The City should ensure that all contracts with outside parties are current.

During the fiscal year 2022 audit, we selected twenty-five disbursements for testing of supporting documentation and noted one disbursement in the amount of \$97,615 made to the Transportation Authority of Marin, for which the most recent contract in place expired on January 1, 2011.

We understand that the City is currently working on a revised contract with the Transportation Authority of Marin, however, the City should develop procedures to ensure that all contracts are current to ensure that payments to outside parties are valid and properly supported.

Current Status:
Implemented.