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**CITY OF NOVATO  
SINGLE AUDIT AND RELATED REPORTS  
FOR THE YEAR ENDED  
JUNE 30, 2020**

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**CITY OF NOVATO  
SINGLE AUDIT AND RELATED REPORTS  
FOR THE YEAR ENDED JUNE 30, 2020**

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

To the City Council  
City of Novato, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Novato, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Novato's basic financial statements, and have issued our report thereon dated February 21, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Novato'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 of Novato's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Novato'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 through 2020-004 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 described in the accompanying schedule of findings and questioned costs as items 2020-005 through 2020-006 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Novato's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2020-007, 2020-009, and 2020-010.

### **City of Novato's Response to Findings**

City of Novato's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Novato's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

A handwritten signature in blue ink, appearing to read "M. L. H. CPAs".

Sacramento, California  
February 21, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council  
City of Novato, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Novato's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Novato's major federal programs for the year ended June 30, 2020. City of Novato's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Novato's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Novato's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Novato's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Novato, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-009 through 2020-010. Our opinion on each major federal program is not modified with respect to this matter.

City of Novato's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Novato's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control over Compliance**

Management of the City of Novato is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Novato's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Novato's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-008 that we consider to be a material weakness.

City of Novato's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Novato's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Novato, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Novato's basic financial statements. We issued our report thereon dated February 21, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole



Sacramento, California  
February 21, 2023

**CITY OF NOVATO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal AL Number</u>	<u>Pass-Through Entity Identifying Number/ Grant Number</u>	<u>Federal Expenditures</u>
<b>U.S Department of Justice</b>			
Direct Awards:			
Bulletproof Vest Partnership Program	16.607		\$ 3,195
Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>135,613</u>
Total U.S. Department of Justice			<u>138,808</u>
<b>U.S Department of Transportation</b>			
Passed-Through State of California Department of Transportation:			
Highway Planning and Construction	20.205	BHLS-5361(030)	17,773
Highway Planning and Construction	20.205	STPL-5361(027)	193,455
Highway Planning and Construction	20.205	STPL-5361(028)	<u>1,326,202</u>
Total Highway Planning and Construction			<u>1,537,430</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18071	<u>55,160</u>
Total U.S. Department of Transportation			<u>1,592,590</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 1,731,398</u></b>

**CITY OF NOVATO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**NOTE 1: REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Novato. The City of Novato reporting entity is defined in Note 1 of the City's Annual Comprehensive Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

**NOTE 2: BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

**NOTE 4: CLAIMS**

The City of Novato has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

**NOTE 5: INDIRECT COSTS**

The City elected not to use the 10% de minimus indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2020.



**CITY OF NOVATO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2020**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance	Yes
Identification of Major Programs: Highway Planning and Construction, 20.205	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted *Government Auditing Standards*.

**Finding 2020-001: Financial Close & Financial Reporting (Repeat Material Weakness)**

**Criteria**

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

**Condition**

During the performance of the audit, processes utilized for closing and reporting of financial activity for the fiscal year were not effective, which contributed to the delayed accounting close of the City's trial balance and unpreparedness for the audit. The year-end audit for the June 30, 2020 fiscal year-end began in August 2022. Approximately 65 journal entries related to numerous audit areas were proposed and posted to the trial balance for audit. The journal entries affected the majority of the line items reflected on the Statements of Net Position and Balance Sheet - Governmental Funds.

Consequently, due to the delay in financial close, accurate and timely financial reports were not being presented to Council on a consistent basis.

**Cause**

Due to personnel turnover and the recent implementation of a new accounting system, the City did not have adequate controls in place to ensure accounting records were closed timely and accurately. Further, the City lacked documentation of significant operational and accounting processes.

**Effect**

The financial statements as presented to the auditors contained material misstatements that required adjustments. Accurate financial information was not provided to City Council timely.

**Recommendation**

We recommend that the City institute a program to methodically identify and document its significant operational and accounting processes. Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

We recommend the City develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured in the City's general ledger in a timely manner, and supporting schedules agree and reconcile to respective account balances prior to the trial balance being provided for the audit.

In order to provide improved financial oversight to the City, we recommend that financial reports, including detailed financial statement information, be presented on a consistent basis to the City Council, at a minimum on a quarterly basis.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**View of Responsible Officials**

Management agrees that personnel turnover in key positions within the Finance Department from 2017 through 2020, along with the COVID-19 pandemic, and the difficult labor market have had a significant impact on the city's financial accounting processes and procedures. Once the turnover began it was difficult to rebuild the finance team during the pandemic and hire qualified personnel due to both the pandemic and the labor market.

Management would also like to acknowledge that the implementation of the accounting systems was not supported and did not include a redesign of previous accounting processes. This led to over-complicated processes that did not allow for full utilization of the capabilities of the financial system to assist with the year end close. This is not the first time the City has had this as a comment, in 2011 there were similar comments in the audit indicating that even though it appears this was resolved, it was not redesigned for the new accounting system.

The City's current administration recognized the need for immediate attention to this condition as it was preparing for the FY18/19 and FY19/20 audits and hired professional financial consultants to assist with the backlog of accounting. Consultants proved not to be enough, staff was needed, and enough staff to stabilize operations and work on the financial processes and catch-up. The City has had stable staff since 2021 which was rounded out by a Deputy Director in early 2022. This helped bring this audit to a close and has allowed for improvements to the close process.

The accounting staff along with consultants are working on policies and procedures. Starting in 2021-2022 processes over journal entries, month end close, and year end close were developed, and the policies and procedures will continue to be developed in 2022-2023.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-002: Cash and Investments (Repeat Material Weakness)**

**Criteria**

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Conditions**

- There was a failure to accurately and timely perform monthly bank reconciliations for the June 30, 2020 fiscal year. Bank reconciliations for the year end June 30, 2020 were performed throughout fiscal year 2021 and finalized in 2022.
- As bank reconciliations were performed subsequent to year-end, unidentified differences were accumulated and totaled approximately \$133,000.
- The City maintains a pooled cash fund which accounts for all of the funds' cash and investment balances. The pooled cash equity fund did not agree to the funds' cash balances indicating that journal entries related to cash were not properly balanced. Further, we noted balances relating to interest were recorded in the pooled cash fund but should have been allocated to the various funds.
- The City had various funds with negative cash balances indicating that other funds' had paid for expenditures. The trail to determine the proper payment of those expenditures was lacking. Numerous transfers were made between funds without adequate support.

**Cause**

Due to personnel turnover, the overall process for cash and investment reconciliations was not being completed properly. Bank reconciliations were not being prepared or reviewed timely. Unfamiliarity with the financial accounting system lead to inconsistencies in how transactions were being recorded.

**Effect**

Untimely preparation and review of bank reconciliations increases the risk that errors could go undetected. Cash and investment balances as presented were not reflective of their true balances.

**Recommendation**

We recommend the City review their cash and investment reconciliation procedures to ensure timely and accurate completion. Cash and investment reconciliations review should include tests of mechanical accuracy and tracing of items on the reconciliation to relevant source documents.

**View of Responsible Officials**

Management agrees that personnel turnover in key positions within the Finance Department from 2017 through 2020, along with the COVID-19 pandemic, and the difficult labor market have had a significant impact on the city's financial accounting processes and procedures. Once the turnover began it was difficult to rebuild the finance team during the pandemic and hire qualified personnel due to both the pandemic and the labor market.

There has been a redesign of the bank reconciliation process with two of the four accounts completely caught up as of February 2023. The remaining reconciliations are complete through June 2022, and February 2021, and are anticipated to be caught up in the next few months. The City hired consultants to redesign the process and once the accounting backlog is caught up, staff will take on keeping the bank reconciliations current. The investment reconciliation process has also been redesigned and ensures transactions are recorded accurately.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-003: Deposits (Repeat Material Weakness)**

**Criteria**

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Condition**

Deposits held in Trust (Fund 120) - Of the \$345,000 of deposits outstanding, approximately \$169,000 or 49% is comprised of items from 2011 and prior. We noted one item from 1996 totaling \$75,000 or 22% of the total deposit balance.

Restricted Revenue Fund (Fund 240) - Of the \$1.46 million of deposits outstanding, approximately \$846,000 or 58% is comprised of items from 2010 and prior. Of the \$846,000 aged items, \$482,000 or 57% is comprised of items from 1973-2000.

**Cause**

There is not proper oversight or management of deposits. No determination has been made as to whether old items are still subject to restrictions, nor has it been determined if the City is required to return the funds to the payer/developer.

**Effect**

Depending on the resolution of the deposits, the City's revenues could potentially be misstated. City funds may have been used to fund projects for which deposits were being held.

**Recommendation**

We recommend that the City perform a thorough review and reconciliation of these deposit accounts to determine if monies are owed to developers, or if these deposits were provided to the City as non-refundable contributions in which case the City should have recorded the amounts into revenue.

**View of Responsible Officials**

This area has been a finding in the management letter as an improvement comment or as a material weakness on and off since the current auditors started and perhaps earlier. It is an area that has not been easy to resolve. The personnel turnover and difficulties in hiring personnel have impacted the Finance Department's ability to operate efficiently and to develop and perform reconciliations. Management agrees with the comment though is prioritizing the first two material weaknesses noted above before addressing this one. In addition, before addressing these accounts it was critical to reconcile the capital improvement projects as these monies are used for those projects. The capital improvement project reconciliation was completed in 2022. Staff will now be able to correlate completion of the projects to restricted revenue and deposits. In 2022-2023 the reconciliations for the Deposits in Trust and Restricted revenue were updated to reflect all monies received and they tie out to the trial balance. The next step is to review this with Public Works and determine disposition of the funds.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-004: Internal Controls (Material Weakness)**

**Criteria**

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Condition**

Upon beginning the 2020 audit, we were informed by management that there was a significant break-down in internal controls related to bank reconciliations, cash disbursements, and payroll. Management identified and corrected instances such as: incorrect, inconsistent, and double postings of transactions, untimely and duplicate payments, journal entries not being properly supported or approved, internal accounting modules not being properly reconciled to the general ledger.

**Cause**

Due to personnel turnover and recent implementation of a new accounting system, the City did not have adequate controls and oversight in place to ensure accounting transactions were being processed accurately and timely. Unfamiliarity with the financial accounting system lead to inconsistencies in how transactions were being recorded.

**Effect**

Throughout the fiscal year, the potential for transactional errors within accounting were deemed to be of high risk, resulting in material weaknesses, significant deficiencies, and control deficiencies.

**Recommendation**

We recommend that the City institute a program to methodically identify and document its significant operational and accounting processes. Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

**View of Responsible Officials**

Management informed the auditors of this condition and agrees with the comment. Management also acknowledges that this occurred due to the staff turnover and subsequent difficulties in hiring mentioned in comments 2020-001, 002, and 003. In 2021-2022 the foundational processes were stabilized (accounts payable, payroll, deposits) allowing staff to focus on reconciliations, procedures, and audit.

As processes are brought current or accounts are reconciled, staff will continue to document procedures and ensure that internal controls are incorporated into the procedures.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-005: Grant Accounting (Repeat Significant Deficiency)**

**Criteria**

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Condition**

The City's grant revenues, expenditures, receivables, and unearned revenue are not being properly reconciled for financial reporting purposes at year-end.

**Cause**

It appears there is not enough formalized communication between the various departments who manage grants and the Finance Department who is responsible for financial reporting at year-end. A formal reconciliation of grants was not being performed.

**Effect**

There were numerous errors identified to properly match grant revenues, expenditures, unearned revenue, and receivables within a fiscal year.

**Recommendation**

We recommend the City implement a grants administration policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Finance Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approvals of coding and application
- Copies of reimbursement requests submitted
- Monitoring of grant cash flow

The Finance Department should then be able to prepare a reconciliation of grant revenues, expenditures, unearned revenue, cash received, and receivables for fiscal year-end.

**View of Responsible Officials**

Management agrees that personnel turnover in key positions within the Finance Department from 2017 through 2020, along with the COVID-19 pandemic, and the difficult labor market have had a significant impact on the city's financial accounting processes and procedures. The City received a comment on grant revenue in 2011, and resolved it in the next fiscal year, but it is clear from the timing of this comment that there was no procedure designed for the new accounting system.

Staffing challenges compounded by the changeover in accounting systems made it difficult to implement accounting processes and procedures and adequately account for all aspects of the various grant programs. As these programs often involve complex terms and regulations, the Finance Department was neither staffed nor trained to fully integrate these requirements in the accounting and reporting.

As a result, the tasks for accounting and reporting related to grants became decentralized and has remained decentralized. The principal burden of this activity was left primarily to the Departments of Public Works, Community Development, and Police and are still being completed at the department level.

Management recognizes that a grant administration policy is needed to ensure that the Finance Department can reconcile all aspects of grant accounting and will address this comment as soon as practicable. Beginning in 2021-2022, Finance staff began actively working with departments to ensure needed information about active grants is provided to Finance.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-006: Journal Entries (Repeat Significant Deficiency)**

**Criteria**

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Condition**

During our test of controls over journal entries, we noted ten out of forty journal entries were created, posted, and approved by the same person and one did not contain sufficient back-up documentation to support the journal entry.

**Cause**

Due to personnel turnover, the City did not have adequate controls in place to ensure journal entries were being properly posted and supported.

**Effect**

Risks exist that incorrect and unsupported journal entries could be posted.

**Recommendation**

We recommend that controls be put into place for the preparation, approval, and posting of journal entries.

**View of Responsible Officials**

Management agrees with the finding. During 2019-2020 vacancies in Finance made it difficult to consistently have a preparer/approver control in place for entries. This deficiency will exist through 2020-2021 but was resolved in 2021-2022 with a journal entry procedure and the addition of staff. Management understands that control over the review and approval of journal entries is essential to being able to reconcile general ledger accounts and prepare reports.



**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-007: SB 341 Successor Agency Compliance (Compliance)**

**Criteria**

Senate Bill (SB 341) requires that all successor entities, starting with fiscal year ended June 30, 2014, comply with annual report requirements within six months after the end of each fiscal year. The annual report must be posted to the City's website and contain all of the required items as described in the Health and Safety Code Section 34176.1 beginning with subsection (f).

**Condition**

The City did not post the required annual report for the fiscal year ended June 30, 2020 by the deadline of December 31, 2020.

**Cause**

There were various personnel turnover and accounting issues such as accounting schedules not properly reconciling to the general ledger which caused delays in the completion of the 2020 annual audit.

**Effect**

The posting of the annual financial report is past its due date.

**Recommendation**

As noted in recommendation 2020-001, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

**View of Responsible Officials**

The City's Finance Department is implementing regular reconciliations of accounts and in 2022 started a year end closing process. Checklists have been developed and continue to be refined. Once the City becomes current this compliance issue will be mitigated. See response for 2020-001.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Findings and questioned costs for Federal Awards, which includes audit findings defined in section 200.516 of the Uniform Guidance.

**Finding 2020-008: Internal Controls (Material Weakness)**

**Criteria**

The A-102 Common Rule, OMB Circular A-110 and 2 CFR section 200.303 require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. 2 CFR section 200.514 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs, and, unless internal control is likely to be ineffective, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program and perform testing of internal control as planned.

**Condition**

As noted in finding 2020-004, the City informed the auditors of a significant break down of internal controls resulting in them to be ineffective through most of the fiscal year.

**Cause**

Due to personnel turnover and the recent implementation of a new accounting system, the City did not have adequate controls and oversight in place to ensure accounting transactions were being processed accurately and timely. Unfamiliarity with the financial accounting system lead to inconsistencies in how transactions were being recorded

**Effect**

The City lacked internal controls to support a low assessed level of control risk for the assertions relevant to compliance requirements for the major program tested.

**Recommendation**

We recommend that the City institute a program to methodically identify and document its significant operational and accounting processes as they relate to Federal grants and compliance. Documenting a process involves identifying and gaining an understanding of the required compliance requirements, the automated or manual procedures used in performing the required processes, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

**View of Responsible Officials**

Management informed the auditors of this condition and agrees with the comment. Management also acknowledges that this occurred due to the staff turnover and subsequent difficulties in hiring mentioned in comments 2020-001, 002, and 003. In 2021-2022 the foundational processes have been stabilized (accounts payable, payroll, deposits) allowing staff to focus on reconciliations, procedures, and audit.

As processes are brought current or accounts are reconciled, staff will document procedures and ensure that internal controls are incorporated into the procedures.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-009: Federal Grants Procedures Manual (Repeat - Uniform Guidance Compliance)**

**Criteria**

On May 17, 2017, the Office of Management and Budget (OMB) issued an addendum to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) allowing nonfederal entities an additional year to implement the Uniform Guidance procurement requirements and the entity must document the decision to utilize the extension.

**Condition**

The City has not updated the Federal Grant Procedures manual for compliance with the Uniform Guidance as required for the fiscal year.

**Cause**

City management was not aware of the Uniform Guidance requirements and implementation dates.

**Effect**

The City's procurement policies and procedures are not in compliance with the Uniform Guidance.

**Recommendation**

We recommend the City review the Uniform Guidance procurement requirements and update the Federal Grant Procedures manual for compliance with the Uniform Guidance.

**View of Responsible Officials**

The City will implement procedures to ensure that the City's federal grant procedures manual will be updated to comply with OMB's Uniform procurement requirement.

**CITY OF NOVATO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**Finding 2020-010: Financial Reporting Timeliness (Repeat - Uniform Guidance Compliance)**

**Criteria**

In accordance with CFR section 200.512 of the Uniform Guidance, the audit must be completed and the data collection form and reporting package must be submitted to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. In accordance with OMB Memo M-20-26, and due to the coronavirus pandemic, an extension of six months beyond the normal due date was granted for submission of the audit, data collection form, and reporting package.

**Condition**

The 2020 Single Audit reporting package and data collection form have not been submitted to the Federal Audit Clearinghouse by the original deadline of March 31, 2021, nor the extended deadline of September 30, 2021.

**Cause**

There were various accounting issues such as personnel turnover and accounting schedules not properly reconciling to the general ledger which caused delays in the completion of the 2020 annual audit.

**Effect**

The filing of the Single Audit Reporting package and data collection form is past the due date.

**Recommendation**

As noted in recommendation 2020-001, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

**View of Responsible Officials**

Management agrees with the finding. The City's Finance Department is implementing regular reconciliations of accounts and in 2022 started a year end closing process. Checklists have been developed and continue to be refined. Once the City becomes current this compliance issue will be mitigated.

**CITY OF NOVATO  
SCHEDULE OF PRIOR YEAR FINDINGS  
JUNE 30, 2020**

**Finding 2019-001: Financial Close (Material Weakness)**

**Condition**

During the performance of the audit, processes utilized for closing and financial reporting of financial activity for the fiscal year were not effective, which contributed to the delayed accounting close of the City's trial balances and unpreparedness for the audit. The year-end audit for the June 30, 2019 fiscal year-end began in October 2019. Over the course of a year, the auditors received 8 versions of the trial balance to be audited. For each version received, it was audited as if it was the City's final representation of year-end figures. However, audit schedules and reconciliations received each time were either lacking or not prepared accurately resulting in numerous journal entries to be proposed to each version of the trial balance. The City's final trial balance was provided in August 2020. Approximately 30 journal entries were proposed and posted to the final trial balance for audit.

**Recommendation**

We recommend that the City institute a program to methodically identify and document its significant operational and accounting processes. Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

We recommend the City develop checklists or other guidance documents over the City's closing process to ensure all closing entries are captured in the City's general ledger in a timely manner, and supporting schedules agree and reconcile to respective account balances prior to the trial balance being provided for the audit.

**Status**

Not implemented. See 2020-001.

**CITY OF NOVATO**  
**SCHEDULE OF PRIOR YEAR FINDINGS (continued)**  
**JUNE 30, 2020**

**Finding 2019-002: Cash and Investments (Material Weakness)**

**Condition**

- There was a failure to accurately and timely perform bank reconciliations for the June 30, 2019 fiscal year.
- The June 30, 2019 final bank reconciliation had an unidentified difference of \$65,681.
- The adjustment to record investments at fair market value at year-end was not recorded properly. The fair market value of the investments per their statements did not agree to the general ledger.
- The City maintains a pooled cash fund which accounts for all of the funds' cash and investment balances. The pooled cash equity fund did not agree to the funds' cash balances indicating that journal entries related to cash were not properly being recorded. Further, we noted balances relating to interest were recorded in the pooled cash fund but should have been allocated to the various funds.
- The City had various funds with negative cash balances indicating that other funds' had paid for expenditures. The trail to determine the proper payment of those expenditures was lacking. Numerous transfers were made between funds without adequate support.

**Recommendation**

We recommend the City review their cash and investment reconciliation procedures to ensure timely and accurate completion. Cash and investment reconciliations review should include tests of mechanical accuracy and tracing of items on the reconciliation to relevant source documents.

**Status**

Not implemented. See 2020-002.

**Finding 2019-003: Deposits (Material Weakness)**

**Condition**

Deposits held in Trust (Fund 120) - Of the \$334,000 of deposits outstanding, approximately \$154,000 or 46% is comprised of items from 2009 and prior. We noted one item from 1996 totaling \$75,000 or 22% of the total deposit balance.

Restricted Revenue Fund (Fund 240) - Of the \$1.5 million of deposits outstanding, approximately \$825,000 or 54% is comprised of items from 2009 and prior. Of the \$825,000 aged items, \$471,000 or 57% is comprised of items from 1973-2000. Further, the City was not able to provide source documents supporting current year transactions recorded in the Restricted Revenue fund. Four transactions, totaling a reduction of deposits of \$277,000 were selected for testing and unable to be supported.

**Recommendation**

We recommend that the City perform a thorough review and reconciliation of these deposit accounts to determine if monies are owed to developers, or if these deposits were provided to the City as non-refundable contributions in which case they City should have recorded the amounts into revenue.

**Status**

Not implemented. See 2020-003

**CITY OF NOVATO**  
**SCHEDULE OF PRIOR YEAR FINDINGS (continued)**  
**JUNE 30, 2020**

**Finding 2019-004: Grant Accounting (Significant Deficiency)**

**Condition**

The City's grant revenues, expenditures, receivables, and unearned revenue are not being properly reconciled for financial reporting purposes at year-end.

**Recommendation**

We recommend the City implement a grants administration policy. With assistance from department heads/grant managers, summarized grant information and program information should be provided to the Finance Department such as:

- Copies of grant agreements and budgets
- Copies of material expenditures with proper approvals of coding and application
- Copies of reimbursement requests submitted
- Monitoring of grant cash flow

The Finance Department should then be able to prepare a reconciliation of grant revenues, expenditures, unearned revenue, cash received, and receivables for fiscal year-end.

**Status**

Not implemented. See 2020-005.

**Finding 2019-005: Financial Reporting and Journal Entries (Significant Deficiency)**

**Condition**

During our test of controls over journal entries, we noted 4 out of 37 had no evidence of the preparer; 7 journal entries had no evidence of review and approval; and 2 did not have adequate supporting documentation.

Quarterly financial reports were not being presented to Council on a consistent basis. The only reports being presented were investment reports.

**Recommendation**

We recommend that controls be put into place for the preparation, approval, and posting of journal entries.

In order to provide improved financial oversight to the City, we recommend that financial reports including detailed financial statement information be presented on a consistent basis to the City Council, at a minimum on a quarterly basis.

**Status**

Not implemented. See 2020-006.

**CITY OF NOVATO  
SCHEDULE OF PRIOR YEAR FINDINGS (continued)  
JUNE 30, 2020**

**Finding 2019-006: SB 341 Successor Agency Compliance (Compliance)**

**Condition**

The City did not post the required annual report for the fiscal year ended June 30, 2019 by the deadline of December 31, 2019.

**Recommendation**

As noted in recommendations 2019-001, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

**Status**

Not implemented. See 2020-007.

**Finding 2019-007: Federal Grants Procedures Manual (Uniform Guidance Compliance)**

**Condition**

The City has not updated the Federal Grant Procedures manual for compliance with the Uniform Guidance as required for the fiscal year.

**Recommendation**

We recommend the City review the Uniform Guidance procurement requirements and update the Federal Grant Procedures manual for compliance with the Uniform Guidance.

**Status**

Not implemented. See 2020-009.

**Finding 2019-008: Financial Reporting Timeliness (Uniform Guidance Compliance)**

**Condition**

The 2019 Single Audit reporting package and data collection form have not been submitted to the Federal Audit Clearinghouse by the original deadline of March 31, 2020, nor the extended deadline of December 31, 2020.

The filing of the Single Audit Reporting package and data collection form is past the due date.

**Recommendation**

As noted in recommendation 2019-001, we recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

**Status**

Not implemented. See 2020-010.