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**CITY OF NOVATO  
SINGLE AUDIT AND RELATED REPORTS  
FOR THE YEAR ENDED  
JUNE 30, 2023**

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**CITY OF NOVATO  
SINGLE AUDIT AND RELATED REPORTS  
FOR THE YEAR ENDED JUNE 30, 2023**

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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, 2023, 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 November 11, 2024.

**Report on 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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 described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

**Report on 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 2023-003 through 2023-005.

### **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.

MUNCPA, LLP

Sacramento, California  
November 11, 2024



## 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**

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

We have audited City of Novato's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2023. 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.

In our opinion, 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, 2023.

#### ***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

#### ***Responsibilities of Management for Compliance***

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

#### ***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

#### ***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 2023-004 through 2023-005. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's responses to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

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

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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Novato, as of and for the year ended June 30, 2023, 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 November 11, 2024, 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.

MUN CPAs, LLP

Sacramento, California  
November 11, 2024

**CITY OF NOVATO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2023**

<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		\$ 10,817
Public Safety Partnership and Community Policing Grants	16.710		248,231
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2A09010210	<u>167,328</u>
Total U.S. Department of Justice			<u>426,376</u>
<b>U.S Department of Transportation</b>			
Direct Awards:			
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614	HSIPL 5361(031)	130,223
Highway Planning and Construction	20.205	STPL-5361(023)	2,756
Passed-Through State of California Department of Transportation:			
State and Community Highway Safety	20.600	PT22043	<u>112,210</u>
Total U.S. Department of Transportation			<u>245,189</u>
<b>U.S Department of the Treasury</b>			
Direct Awards:			
Coronavirus Relief Fund	21.019	004948063	<u>1,387,143</u>
Total U.S. Department of the Treasury			<u>1,387,143</u>
<b>U.S Department of Homeland Security</b>			
Direct Awards:			
Homeland Security Grant Program	97.067	2021-0081	<u>66,808</u>
Total U.S. Department of Homeland Security			<u>66,808</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 2,125,516</u></b>



**CITY OF NOVATO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

**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, 2023.

**CITY OF NOVATO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2023**

**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?	No
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: Coronavirus Relief Fund, 21.019	
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, 2023**

**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 2023-001: 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 \$473,000 of deposits outstanding, approximately \$170,000 or 36% is comprised of items from 2011 and prior. We noted one item from 1996 totaling \$75,000 or 16% of the total deposit balance.

Restricted Revenue Fund (Fund 240) - Of the \$1.3 million of deposits outstanding, approximately \$1.2 million or 92% is comprised of items from 2012 and prior. Of the \$1.2 million aged items, \$421,000 or 58% is comprised of items from 1973-2001. In addition, the internal schedule maintained to support the balance contains an unidentified difference of approximately \$15,000.

Customer Deposits - Cost Recovery (Fund 101) - Of the \$570,000 of outstanding deposits outstanding, approximately \$211,000, or 37% of customer deposit recovery costs are from 2019 and prior.

**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 finding has been an area that has been a finding off and on since 2011.

For Deposits in Trust, the deposits have been reviewed and disposition determined by Public Works Department. This was done twice in FY23/24, and refunds were issued in FY23/24 and in early FY24/25. Deposits for projects that are identified as complete, but for which the depositor could not be located at the last known address will be retained as revenue after going through the unclaimed funds process in FY 24/25.

For restricted revenue, the Capital Improvement Program (CIP) needed to be reconciled to be able to determine which projects have restricted revenue uses. Finance has programmed restricted revenue to appropriate projects, and old restricted revenue that is not allocable to a project will go through the unclaimed funds process in FY 24/25.

Work will continue in each of these areas until the disposition of all deposits is determined.

**CITY OF NOVATO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2023**

**Finding 2023-002: Cash and Investments (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.

**Conditions**

- There was a failure to accurately and timely perform monthly bank reconciliations for the June 30, 2023 fiscal year. Bank reconciliations for the year ended June 30, 2023 were performed throughout fiscal year 2024.
- As bank reconciliations were performed subsequent to year-end, unidentified differences were accumulated and recorded. Unidentified differences resulted in prior period adjustments.

**Cause**

Due to personnel turnover, the overall process for cash and investment reconciliations was not being completed properly during the fiscal year. 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. In addition, the City should review its process of proper recording and allocation of investment activity within their general ledger system.

**View of Responsible Officials**

Management agrees that turnover in key positions from 2017-2020, along with the COVID-19 pandemic and difficult labor market in finance had a significant impact on the City's financial processes and procedures. Reconciliation processes broke down and are still being rebuilt.

The bank reconciliations have been rebuilt but are lagging in review as staff have been focused on catching up on the audits. All bank reconciliations are completed through FY23/24 and into FY24/25.

**CITY OF NOVATO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2023**

**Finding 2023-003: SB 341 Successor Agency Compliance (Repeat 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, 2023 by the deadline of December 31, 2023.

**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 2022 annual audit. This led to the 2023 annual audit being delayed until September 2024.

**Effect**

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

**Recommendation**

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 has implemented a year-end closing process. Once the City becomes current this compliance issue will be mitigated.

**CITY OF NOVATO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2023**

**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 2023-004: Federal Grants Procedures (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 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 policies and procedures for compliance with the Uniform Guidance.

**View of Responsible Officials**

The City will implement procedures to ensure the City's grant policies and procedures comply with the Office of Management and Budget's (OMB) Uniform Guidance. The City issued an administrative procurement policy in July 2024 that included procurement procedures for grants.

**CITY OF NOVATO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2023**

**Finding 2023-005: 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.

**Condition**

The 2023 Single Audit reporting package and data collection form have not been submitted to the Federal Audit Clearinghouse by the deadline of March 31, 2024.

**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 2022 annual audit. This led to the 2023 annual audit being delayed until September 2024.

**Effect**

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

**Recommendation**

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 has implemented a year-end closing process. Once the City becomes current this compliance issue will be mitigated.

**CITY OF NOVATO  
SCHEDULE OF PRIOR YEAR FINDINGS  
JUNE 30, 2023**

**Finding 2022-001: Financial Close & Financial Reporting (Repeat Material Weakness)**

**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. The year-end audit for the June 30, 2022 fiscal year-end began in February 2024. Journal entries were proposed and posted to the trial balance for audit. In addition, prior period adjustments were identified and recorded for the governmental activities and governmental funds in the approximate amount of \$288,000.

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

**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.

**Status**

Implemented.

**Finding 2022-002: Cash and Investments (Repeat Material Weakness)**

**Conditions**

- There was a failure to accurately and timely perform monthly bank reconciliations for the June 30, 2022 fiscal year. Bank reconciliations for the year ended June 30, 2022 were performed throughout fiscal year 2023.
- As bank reconciliations were performed subsequent to year-end, unidentified differences were accumulated and recorded to miscellaneous revenue/expense. Significant unidentified differences resulted in prior period adjustments as noted in finding 2022-001.

**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. In addition, the City should review its process of proper recording and allocation of investment activity within their general ledger system.

**Status**

Partially implemented. See 2023-002.



**CITY OF NOVATO  
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)  
JUNE 30, 2023**

**Finding 2022-003: Deposits (Repeat Material Weakness)**

**Condition**

Deposits held in Trust (Fund 120) - Of the \$461,000 of deposits outstanding, approximately \$170,000 or 37% is comprised of items from 2011 and prior. We noted one item from 1996 totaling \$75,000 or 16% of the total deposit balance.

Restricted Revenue Fund (Fund 240) - Of the \$1.3 million of deposits outstanding, approximately \$701,000 or 54% is comprised of items from 2011 and prior. Of the \$701,000 aged items, \$450,000 or 64% is comprised of items from 1973-2001. In addition, the internal schedule maintained to support the balance contains an unidentified difference of approximately \$16,000.

Customer Deposits - Cost Recovery (Fund 101) - Of the \$276,000 of outstanding deposits outstanding, approximately \$211,000, or 76% of customer deposit recovery costs are from 2019 and prior.

**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.

**Status**

Not implemented. See 2023-001.

**Finding 2022-004: Grant Accounting (Repeat Significant Deficiency)**

**Condition**

The City did not have procedures in place to properly reconcile grant revenues, expenditures, receivables, and unearned revenue for financial reporting purposes at year-end. Noted approximately \$483,000 of expenditures included on the SEFA were due to expenditures from FY 2019-20 that had not been billed or collected.

**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**

Implemented.

**CITY OF NOVATO  
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)  
JUNE 30, 2023**

**Finding 2022-005: SB 341 Successor Agency Compliance (Repeat Compliance)**

**Condition**

The City did not post the required annual report for the fiscal year ended June 30, 2022 by the deadline of December 31, 2022.

**Recommendation**

As noted in recommendation 2022-001, 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 2023-003.

**Finding 2022-006: Federal Grants Procedures (Repeat - Uniform Guidance Compliance)**

**Condition**

The City has not updated the Federal Grant procedures 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 for compliance with the Uniform Guidance.

**Status**

Not implemented. See 2023-004.

**Finding 2022-007: Financial Reporting Timeliness (Repeat - Uniform Guidance Compliance)**

**Condition**

The 2022 Single Audit reporting package and data collection form have not been submitted to the Federal Audit Clearinghouse by the deadline of March 31, 2023.

**Recommendation**

As noted in recommendation 2022-001, 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 2023-005.