

City of San Bruno

San Bruno, California

*Auditor's Communication with
Those Charged with Governance*

For the year ended June 30, 2022



April 26, 2023

To the Honorable Mayor and Members
of the City Council of the City of San Bruno
San Bruno, California

We have audited the financial statements of the City of San Bruno (City) as of and for the year ended June 30, 2022, and have issued our report thereon dated April 26, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit and the Single Audit

As communicated in our engagement letter dated September 14, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, and material noncompliance, and other matters noted during our audit in the "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*" dated April 26, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks:

- *Risk of Management Override of Internal Controls* – A risk of management override of internal controls exists at any entity where management can change or decide not to perform that entity's internal controls.
- *Revenue Recognition Risk* – Errors in revenue recognition can affect bond covenant ratios and the net position of the City.
- *High Turnover Risk* – A risk that institutional knowledge is lost. Routine or closing journal entries could be missed entirely, or methods of estimation altered.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are capital asset depreciation and useful life, pension plan assumptions, and claims payable estimates.

Management's estimate of capital asset depreciation and useful life, pension plan assumptions, and claims payable are based on historical useful lives of such assets, actuarial assumptions for pension and claims payable. We evaluated the key factors and assumptions used to develop the estimate of capital assets depreciation and useful life, pension assumptions, and claims payable estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to:

- Summary of Significant Accounting Policies
- Cash and Investments
- Long-term Debt
- Capital Assets
- Public Employees' Retirement System
- Going Concern
- Prior Period Adjustment

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Account	Description	W/P Ref	Debit	Credit
Audit Adjusting Journal Entries				
Audit Adjusting Journal Entries JE # 1				
To reclass ARPA revenues as unearned revenues and remove the receivable.				
006-9010-4475	AMERICAN RESCUE PLAN ACT FUNDS		5,120,172.00	
006-9010-4475	AMERICAN RESCUE PLAN ACT FUNDS		1,277,007.53	
006-1299	ACCTS.RECBL-OTHER			5,120,172.00
006-2340	DEF.REVENUE			1,277,007.53
Total			<u>6,397,179.53</u>	<u>6,397,179.53</u>
Audit Adjusting Journal Entries JE # 2				
To adjust pension balances to use prior year fund allocations				
611-2650	PENSION LIABILITY - GASB 68		33,217.00	
611-2801	DEFERRED INFLOW OF RESOURCES		11,499.00	
621-2650	PENSION LIABILITY - GASB 68		560,085.00	
621-2801	DEFERRED INFLOW OF RESOURCES		193,898.00	
631-1910	DEFERRED OUTFLOW OF RESOURCES		2,398.00	
631-6310-5250	PENSION EXPENSE - GASB 68		15,794.00	
641-2650	PENSION LIABILITY - GASB 68		257,351.00	
641-2801	DEFERRED INFLOW OF RESOURCES		89,093.00	
611-1910	DEFERRED OUTFLOW OF RESOURCES			5,895.00
611-6110-5250	PENSION EXPENSE - GASB 68			38,821.00
621-1910	DEFERRED OUTFLOW OF RESOURCES			99,397.00
621-6210-5250	PENSION EXPENSE - GASB 68			654,586.00
631-2650	PENSION LIABILITY - GASB 68			13,513.00
631-2801	DEFERRED INFLOW OF RESOURCES			4,679.00
641-1910	DEFERRED OUTFLOW OF RESOURCES			45,671.00
641-6410-5250	PENSION EXPENSE - GASB 68			300,773.00
Total			<u>1,163,335.00</u>	<u>1,163,335.00</u>

Audit Adjusting Journal Entries JE # 3

To return unspent ARPA monies transferred to other funds

006-1101	CASH IN BANK	542,813.37	
006-9010-4475	AMERICAN RESCUE PLAN ACT FUNDS	542,813.37	
207-3710-8999	NON-OPERATING TRANSFER	447,414.13	
641-6480-8999	NON-OPERATING TRANSFER	95,399.24	
006-2340	DEF.REVENUE		542,813.37
006-9010-4999	NON-OPERATING TRANSFER		542,813.37
207-1101	CASH IN BANK		447,414.13
641-1101	CASH IN BANK		95,399.24
Total		1,628,440.11	1,628,440.11

Audit Adjusting Journal Entries JE # 4

To reclass unspent grant monies for the Recreation and Aquatics Center as unearned revenues and remove receivables related to the project.

201-1801-4995	OTHER REVENUE	4,498,633.91	
201-1801-4995	OTHER REVENUE	3,328,493.09	
201-1299	ACCTS.RECBL-OTHER		3,328,493.09
201-2340	Unearned Revenue		4,498,633.91
Total		7,827,127.00	7,827,127.00

Audit Adjusting Journal Entries JE # 5

To reclass RPTTF revenues to the General Fund

001-1101	CASH IN BANK	918,470.45	
153-3513-4455	RPTTF REVENUES	918,470.45	
001-9010-4015	RPTTF PROPERTY TAX		918,470.45
153-1101	CASH IN BANK		918,470.45
Total		1,836,940.90	1,836,940.90

Audit Adjusting Journal Entries JE # 6

To accrue Stormwater fund May 2022 invoice

621-6210-6411	CONTRACTUAL SERVICES	87,100.00	
621-2010	ACCOUNTS PAYABLE		87,100.00
Total		87,100.00	87,100.00

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated April 26, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Single Audit Compliance

In accordance with the Uniform Guidance, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Noncompliance with Laws and Regulations, Violations of Contract Provisions or Grant Agreements

We have identified the following matters involving noncompliance with laws and regulations, violations of contract provisions or grant agreements that came to our attention during the course of the audit.

Measure A and Measure W agreements with the San Mateo County Transportation Authority state that the City shall submit a compliance audit no later than 180 days from the end of the fiscal year. Due to delays in the start of the audit and the City's staff's difficulty in finding the expenditures of the Measure A and W monies, the City missed the deadline for submitting these compliance audits. Similarly, due to

the same delays in starting the audit and the City's preparation the Schedule of Federal Awards, the City also missed the federal Single Audit deadline.

Required Supplementary Information

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information

We were engaged to report on the combining General Fund statements, combining and individual nonmajor fund statements, and the budgetary comparison schedules for the Parks and Facilities Capital Improvement Fund and nonmajor governmental funds which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Information Included in Annual Comprehensive Financial Reports

Pursuant to professional standards, our responsibility as auditors for the introductory and statistical sections, whether financial or nonfinancial, included in the City's annual comprehensive financial report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Substantial Doubt on the CityNet Enterprise Fund and Stormwater Enterprise Fund's Abilities to Continue as a Going Concern

We believe that the following events or conditions identified during the course of the audit raise substantial doubt about the CityNet Enterprise Fund and Stormwater Enterprise Fund's abilities to continue as a going concern for a reasonable period of time:

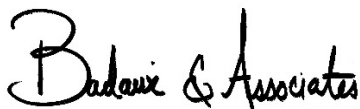
The Stormwater Enterprise Fund has had operating losses due to user fees being too low to meet costs each of the last two fiscal years. In FY2021-22, the General Fund transferred one-time ARPA amounts to subsidize the Stormwater Enterprise Fund's operations. Management's plans are not clear on how this fund will become stable in future years. These issues raise substantial doubt about the Stormwater Enterprise Fund's ability to continue as a going concern. Our auditor's report and the financial statements disclose this doubt.

The CityNet Enterprise Fund (CityNet) has a deficit net position that amounts to over two years worth of FY2021-22 operating revenues. In addition, operating revenues have been declining in the fund every year, and CityNet is not profitable yet. Management's plans address the operating losses, but management does not yet have a plan in place to pay back the General Fund for covering CityNet's lack of cash. These issues raise substantial doubt about CityNet's ability to continue as a going concern. Our auditor's report and the financial statements disclose this doubt.

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Auditor

We have identified the existence of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification. In May 2020, a resident bequeathed a large sum of money in the form of a trust to the Senior Center. All of the annual net income of the trust and up to \$100,000 of the principal may be distributed as cash to the City annually. On February 11, 2060, the trust terminates and the remaining assets are to be distributed to the City of San Bruno Community Services Department for the benefit of San Bruno Senior Center. Per GAAP, this is a City asset, even if most of the principal is not available to the City to spend for a period of time. As this was bequeathed prior to the start of the 2021-22 fiscal year, the City recorded a prior period adjustment to account for the trust asset.

This report is intended solely for the information and use of the City Council, and management of the City and is not intended to be and should not be used by anyone other than these specified parties.



Badawi & Associates, CPAs
Berkeley, California
April 26, 2023