

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL  
FOR THE YEAR ENDED JUNE 30, 2024**

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**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**For the Year Ended June 30, 2024**

**Table of Contents**

	<b><u>Page</u></b>
<i>Memorandum on Internal Control</i> .....	1
<b>City:</b>	
Schedule of Other Matters .....	3
<b>Santa Clara Stadium Authority:</b>	
Schedule of Significant Deficiencies .....	5
<b>City:</b>	
Status of Prior Year Other Matters .....	9

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## MEMORANDUM ON INTERNAL CONTROL

To the City Council of  
the City of Santa Clara, California

We have audited the basic financial statements of the City of Santa Clara for the year ended June 30, 2024 and have issued our report thereon dated November 15, 2024. Our opinions on the basic financial statements and this report, insofar as they relate to the component unit of the Santa Clara Stadium Authority, and the Investments in Joint Ventures of the Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), M-S-R Energy Authority (MSR EA), M-S-R Public Power Agency (MSR PPA) and the San Jose-Santa Clara Regional Wastewater Facility and Clean Water Financing Authority (SJSC), are based solely on the reports of other auditors. In planning and performing our audit of the basic financial statements of the City as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

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

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

*Government Auditing Standards* require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Significant Deficiencies and Schedule of Other Matters. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

The Schedule of Significant Deficiencies for the Santa Clara Stadium Authority was provided by the other auditors, as we did not audit that entity, are based solely on the report of other auditors.

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

Pleasant Hill, California  
November     , 2024

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**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2024-01      Review of Manual Fee Calculations**

The rates charged in the City's permit billing system should be consistent with the City's Master Fee Schedule approved by the City Council and permit fee calculations should be reviewed for accuracy.

We tested twenty-five governmental cash receipts to recalculate fees using the City's Master Fee Schedule and agree to supporting documentation, and noted one building permit for which the technology fee in the amount of \$9.13 was charged twice. We understand that the technology fee entered manually with the "Building Permit Site Clearance – Minor" fee and should have been deleted, but the error was due to staff oversight. City staff later determined that the error affected other permits issued during the fiscal year and fees totaling \$6 thousand had been overcharged and we understand the City will refund the excess charges to the customers during fiscal year 2025.

Errors in fee calculations or charging fees that are not in accordance with the Master Fee Schedule approved by the City Council could result in undercharging or overcharging customers and an understatement or overstatement of revenue.

The City should develop procedures to ensure that fees are not duplicated in the building permit fee calculations, which includes ensuring all manual fee calculations are reviewed and approved.

***Management's Response:***

The City agrees with the recommendation and has implemented a new quality control process for all building permits fees prior to invoicing. This process includes, but is not limited to: (1) a review of each building permit record where any fees were calculated manually, and 2) a monthly random audit of selected building permit records to verify the accuracy and correct calculation of assessed fees. Additionally, all fees entered into the customer information system are reviewed by a Senior Permit Technician or Permit Center Supervisor before finalizing the invoice. Quality control training on the new process was conducted for all staff permit staff in June 2024.

**2024-02      Procurement Card Approval Documentation**

The City's Payment Options summary of the requirements for Procurement Card purchases indicates that Procurement Card statements should include the signature of the cardholder and the Department Statement Approver (Department Supervisor and/or Department Head). In addition, the City's procedures require that the Auditor's Office Management Analyst review each statement and backup individually and sign off with her initials showing her review on a log.

The Auditor's Office reviews the statements after the Purchasing Department notifies them that a particular month is complete. Once purchasing has collected all of the statements and supporting documentation from the various departments and are satisfied that they are complete, they let the Auditor's Office know via email and the Management Analyst conduct the review. The Management Analyst's review normally happens within a few days of receiving that notice.

We selected the months of September 2023 and January 2024 and six employee statements from each month for testing of documentation of timely review and approval. All of the statements selected for testing were reviewed during April 2024, or three to seven months after month end. In addition, two of the statements did not include the Management Analyst's signature and one statement did not have a date by the approving Department Supervisor's signature.



**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2024-02      Procurement Card Approval Documentation (Continued)**

While we understand the lack of signature and date are due the statement being returned to the Purchasing Department for additional information, we also understand the late review by the Management Analyst was due to the statements not being ready for review in a timely manner.

The timely review of the procurement card statements is important, because the City must pay the monthly procurement card balances when due, regardless of whether the transactions have been reviewed for accuracy, compliance and approval.

The City should develop procedures to ensure that the Procurement Card statements are submitted by cardholders timely and reviewed in a timely manner and the date of the review for all levels of review should be included in the documentation.

***Management's Response:***

The City agrees with the recommendation to remind employees of the importance of submitting complete supporting documentation promptly, including signing and dating all reports, to enable the Finance Department and the City Auditor's Office to complete reviews efficiently. To support this, the City will conduct citywide training for all staff, underscoring the need for timely and complete documentation submissions.

Additionally, the City will enforce timely submission by deactivating accounts of users with repeated late submissions.

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

**EFFECTIVE FISCAL YEAR 2024/25:**

**GASB 101 – Compensated Absences**

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

*Recognition And Measurement*

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

*Notes To Financial Statements*

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 101 – Compensated Absences (Continued)**

*How the Changes in this Statement Will Improve Financial Reporting*

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

**GASB 102 – Certain Risk Disclosures**

State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 102 – Certain Risk Disclosures (Continued)**

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

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.

**EFFECTIVE FISCAL YEAR 2025/26:**

**GASB 103 – Financial Reporting Model Improvements**

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

*Management's Discussion and Analysis*

This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

*Unusual or Infrequent Items*

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

**GASB 103 – Financial Reporting Model Improvements (Continued)**

*Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position*

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

*Budgetary Comparison Information*

This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

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

The requirements for MD&A will improve the quality of the analysis of changes from the prior year, which will enhance the relevance of that information. They also will provide clarity regarding what information should be presented in MD&A.

The requirements for the separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources.

The definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability. The addition of a subtotal for operating income (loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position.

The requirement for presentation of major component unit information will improve comparability.

The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability.

CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

**EFFECTIVE FISCAL YEAR 2026/27:**

**GASB 104 – Disclosure of Certain Capital Assets**

State and local governments are required to provide detailed information about capital assets in notes to financial statements. GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with GASB Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

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

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information about certain types of capital assets in order to make informed decisions and assess accountability. Additionally, the disclosure requirements will im-prove consistency and comparability between governments.

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SANTA CLARA STADIUM AUTHORITY**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES  
(Provided by Other Auditors)**

**SCSA 2024-01 Adoption of New Accounting Pronouncements**

***Criteria***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is required to determine whether the entity maintained, in all material respects, effective internal controls over financial reporting based on the criteria established by a suitable framework, which is typically the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

The COSO Framework views all five components and all 17 principles as relevant to an integrated system of internal controls, irrespective of the entity or its objectives. Controls must be designed and operating under each of the 17 principles to demonstrate that the principle has been achieved.

The component of internal control relevant to this finding is the Control Activities, specifically Principles 9 and 10 of the COSO Framework, which state that the organization identifies and assesses changes that could significantly affect the system of internal control, and that the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, respectively.

***Conditions Found***

Governmental Accounting Standards Board Statement No. 87, Leases (GASB 87) established a new accounting framework for all lease transactions. The Stadium Authority adopted GASB 87 in the prior year, which ended March 31, 2023. While preparing the March 31, 2024 financial statements, Management identified an error related to that adoption. Specifically, Management identified GASB 87 was not properly implemented because an existing deferred rent liability had not been evaluated and adjusted to beginning Net Position upon adoption of the new standard.

***Cause***

The deficiency was caused by the lack of an effective review process over the adoption of GASB 87 as the new accounting standard for leases. The review of the GASB 87 implementation for the company's ground lease, the review of the journal entries to eliminate certain aspects of the lease on the balance sheet, and the review of interest income and expense for the ground and stadium leases as part of the adoption of the new standard did not appropriately detect and prevent the error from occurring or being reported on the financial statements for the period.

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**SANTA CLARA STADIUM AUTHORITY**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES  
(Provided by Other Auditors)**

**SCSA 2024-01 Adoption of New Accounting Pronouncements (Continued)**

Per our inquiries with Management, we understand that these errors were also precipitated by the late determination of the applicability of GASB 87 to the Stadium Authority on a stand-alone basis.

The review process for adopting new accounting standards was not designed with sufficient precision or effectiveness to ensure accurate financial reporting which subsequently caused the revision of prior year financial statements amounts in the 2024 report.

***Effect***

The misstatement resulted in an overstatement of total liabilities and understatement of total assets and net position. The correction of overstated expenses and understated revenues from previous periods, along with the adjustment to the deferred rent liability, resulted in a cumulative impact on net position of \$8.7M at March 31, 2023.

Management determined the error was not material to the March 31, 2023 financial statements. To correct the prior year error, Management adjusted the 2023 amounts reported in the March 31, 2024 financial statements, and included note disclosure 2(1) in the March 31, 2024 financial statements to summarize the adjustments and effects of the correction.

The error in the adoption of GASB 87 indicates an increased risk of misstatement associated with the adoption of other new accounting standards.

***Recommendation***

We recommend that Management develop a process to ensure all new accounting pronouncements are properly assessed, accurately applied, and appropriately presented in the year of implementation.

***Management Response***

Management agrees with the recommendation and has developed additional processes to improve the implementation checklist for new accounting pronouncements. The misstatement was identified by Management through the current year's review process and we promptly took action to correct the misstatement and disclose the adjustment in the financial statements.



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