CITY OF SANTA CLARA
MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2025

This Page Left Intentionally Blank

CITY OF SANTA CLARA
MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2025

Table of Contents

This Page Left Intentionally Blank

MAZE & ASSOCIATES

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, 2025 and have issued our report thereon dated DATE, 2025. 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, 2025, 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 material weaknesses.

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 consider the deficiencies in internal control included on the Schedule of Material Weaknesses 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.

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 Material Weaknesses 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.

Accountancy Corporation
3478 Buskirk Avenue, Suite 217
Pleasant Hill, CA 94523

T 925.228.2800
E maze@mazeassociates.com
W mazeassociates.com

The Schedule of Material Weaknesses and Status of Prior Year 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
DATE, 2025

CITY OF SANTA CLARA
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2025-01 **<u>Mission City Memorial Park Payment Collection Procedures</u>**

Daily cash collections should be reconciled to invoices and deposits and the review and approval of the documents should demonstrate the segregation of duties between those involved with the process.

We reviewed the cash collection procedures at the Mission City Memorial Park (MCMP) and the three items that the staff prepares related to cash collections to test for segregation of duties and timeliness of the review and approval process. The three items prepared include invoices, cashier deposit listing and monthly activity reports. We selected two copies of each item and noted the following:

1. Invoices – we noted the two invoices selected for testing from December 2024 and March 2025 include a "for office use" box for MCMP staff to manually check off if the goods or service is ready and approved for the administration aspect that involve checking for inventory, map (if applicable), details, work order (if applicable), inscription work order (if applicable), setting fee (if applicable), future need (if applicable), activity report, tax report, database, and day schedule report. We understand for the checkoff mark, the invoices and payment receipt always happen on the same day, so the checkmark is not accompanied by the sign-off or date of the person that prepared the form and the person that reviewed and approved the form.

2. Cashier Deposit Listing – the listings selected for testing from October 2024 and January 2025 did not have any documentation of who prepared, reviewed and approved the documents.

3. Monthly Activity Reports – although the reports for December 2024 and March 2025 selected for testing included checkmarks showing someone had worked on the documents, there was no documentation to demonstrate who had prepared or reviewed the reports or the date the review was completed. We understand the review approval is verbally communicated.

Without documentation of the review and approval of invoices, cashier deposit listings and monthly activity reports, the timeliness of preparation and review and evidence of the segregation of duties cannot be confirmed.

Finance staff should work with MCMP staff to review the cash collection procedures and implement documentation processes and procedures to ensure that segregation of duties is maintained over the cash collection process. Documentation of the preparation, review and approval process should be made in some formal manner, including the date each is completed.

Management's Response:
The City agrees with the recommendation. Finance staff will work with Mission City Memorial Park (MCMP) staff to review and update the cash collection procedures to ensure appropriate segregation of duties and proper documentation of all signoffs on preparation, review, and approval steps.

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 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.

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.

SCHEDULE OF OTHER MATTERS

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

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

STATUS OF PRIOR YEAR 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.

> ***Current Status:***
> The City agrees with the recommendation. The new invoicing procedures in Accela, implemented in July 2025 have significantly reduced the risk of fee duplication. Staff are currently being trained on the updated processes, including the review steps required to confirm that manually calculated fees and Technology Fees are assessed in accordance with the Master Fee Schedule. Ongoing monitoring and periodic audits will continue to verify that fees are invoiced correctly.

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.

STATUS OF PRIOR YEAR 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.

Update for June 30, 2025 Audit:
We selected the months of October 2024 and February 2025 and six employee statements from each month for testing of documentation of timely review and approval. The October statements selected for testing were reviewed by the Department Supervisor within thirty days of month end, but they were not reviewed by the Management Analyst until May 2025. The February 2025 statements selected for testing were reviewed by the Department Supervisor within thirty days of month end, but did not include documentation of the review by the Management Analyst.

We understand the late review of the October statements by the Management Analyst was due to the statements not being ready for review in a timely manner. We understand the February statements were reviewed by the Department Supervisor, but the Management Analyst was not told they were ready for review.

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.

Current Status:
The City agrees with the recommendation. Employees have been reminded of the requirement to submit complete procurement card documentation, including signatures and dates, promptly to ensure timely review by both the Finance Department and the City Auditor's Office. The City has provided refresher trainings to all cardholders emphasizing the importance of timely submission and complete supporting documentation.

CITY OF SANTA CLARA
MEMORANDUM ON INTERNAL CONTROL

SANTA CLARA STADIUM AUTHORITY

SCHEDULE OF MATERIAL WEAKNESSES
(Provided by Other Auditors)

SCSA 2025-001 **Accounting Treatment for Stadium Builder Licenses Defaults**

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 organization should select and develop control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Conditions Found

The Stadium Authority sells Stadium Builder Licenses (SBLs) for a fee, Which holders can pay upfront or through financing arrangements. When collected, these fees are recognized as unearned revenue and amortized into revenue over the life of the stadium. Under the terms of the SBL agreement, when a default occurs, the customer loses their rights to any services under the agreement. As such, at the time of the default, the associated unearned revenue related to the SBL fees should be recognized as revenue.

The Stadium Authority's accounting treatment related to the SBL defaults was to continue to amortize the fee over the remaining life of the stadium rather than recognize the remaining amount at the time of default. Stadium Authority management did not sufficiently identify and evaluate the accounting impact of the defaults of SBL revenue agreements. The Stadium Authority had not historically assessed the SBL defaults to determine whether the impact of the accounting treatment would be clearly inconsequential.

During the testing of the fiscal year 2025 SBL revenue, the engagement team identified the error in accounting for SBL defaults has accumulated over time, since the inception of the entity and SBLs. to a consequential amount.

Cause

The deficiency was caused by the lack of a proper accounting policy and an effective process to identify and assess the impact of the SBL defaults on financial reporting.

The Stadium Authority did not design or implement a review process for monitoring SBL defaults to ensure accurate financial reporting.

SANTA CLARA STADIUM AUTHORITY

SCHEDULE OF MATERIAL WEAKNESSES
(Provided by Other Auditors)

SCSA 2025-001 **Accounting Treatment for Stadium Builder Licenses Defaults (Continued)**

Effect

The misstatement resulted in an overstatement of unearned revenue. and an understatement of net position. The correction resulted in a cumulative impact on net position of $23.1M at March 31, 2024.

Management determined the error was not material to the March 31, 2024 financial statements. To correct the prior year error. Management adjusted the 2024 amounts reported in the March 31, 2025 financial statements. and included note disclosure 2(m) in the March 31, 2025 financial statements to summarize the adjustments and effects of the correction.

Recommendation

We recommend that Management develop a process to ensure SBL defaults are properly assessed and appropriately recorded.

Management Response

Management agrees with the recommendation ana will work with its management company to obtain a complete and accurate SBL default report. This report will be used to perform an annual assessment of the SBL default revenue recognition in conformity with US generally accepted accounting principles.

CITY OF SANTA CLARA
MEMORANDUM ON INTERNAL CONTROL

SANTA CLARA STADIUM AUTHORITY

STATUS OF PRIOR YEAR 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

STATUS OF PRIOR YEAR 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(l) 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.

Current Status

This has been completed.

This Page Left Intentionally Blank