

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

INTERNAL AUDIT REPORT

FORMER MATHER AIR FORCE BASE ECONOMIC DEVELOPMENT CONVEYANCE AGREEMENT COMPLIANCE

**COUNTY EXECUTIVE'S OFFICE –
THE OFFICE OF ECONOMIC DEVELOPMENT**



Audit Committee Submittal Date: 09/28/2018

SUMMARY

Background

In the effort to serve public interest by facilitating the reutilization or redevelopment of Mather in a beneficial manner, or of otherwise revitalizing the impacted communities and the economies of those communities, the Economic Development Conveyance Agreement was made and entered into, as of April 26, 2013 by, and between the United States of America, Air Force and the Sacramento County Executive's Office – The Office of Economic Development (the Office). As part of the Agreement, the Office is subject to the completion of the annual audit and the delivery of the audited financial statements for each fiscal year during the Agreement term.

Audit Objective

To confirm County Executive's Office – The Office of Economic Development is in compliance with Former Mather Air Force Base Economic Development Conveyance Agreement for the Fiscal Year ended June 30, 2016.

Summary

We noted an issue related to the timing of revenues and expenditures reporting.



County of Sacramento

August 23, 2018

Mr. Troy Givans, Director
County Executive's Office – The Office of Economic Development
County of Sacramento
700 H Street, Suite 6750
Sacramento, CA 95814

Dear Mr. Givans:

We have performed the procedures enumerated below, which were requested and were agreed to by you, to the Former Mather Air Force Base Economic Development Conveyance Agreement (Mather EDC) for the period of July 1, 2015 through June 30, 2016. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings were as follows:

1. We reviewed the Former Mather Air Force Base Economic Development Conveyance Agreement applicable to the period July 1, 2015 through June 30, 2016 for compliance.

Finding: The Office of Economic Development (the Office) is noncompliant with Mather Mather EDC Agreement and Revenue Sharing Agreement by reporting revenues and expenditures incurred outside of reporting period. See Attachment I: *Statement of Agreement Revenues and Expenditures*, Attachment II: *Current Status of Prior Finding and Recommendation*, and Attachment III: *Current Finding and Recommendation*.

2. We reviewed the Mather EDC accounting systems as they relate to the accounting for the control over contract revenues and expenditures.

Finding: The Finding addressed on procedures 1 above is repeated findings from previous report and the Office did not take timely actions to correct these findings. See Attachment II: *Current Status of Prior Finding and Recommendation* and Attachment III: *Current Finding and Recommendation*.

Mr. Troy Givans, Director
County Executive's Office – The Office of Economic Development
August 23, 2018

3. We reviewed reported revenues and expenditures for compliance with the terms and conditions of the above agreement for the period.

Finding: See finding addressed on procedure 1 on page 1.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit, examination, or review, the objectives of which would be the expression of an opinion or conclusion, respectively, on the Office's financial statements or schedules, internal control, compliance, or results of our agreed-upon procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures or had we made an examination in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the contract between the County of Sacramento and the U.S. Air Force and does not extend to any other contract or program administered by the Office.

This report is intended solely for the use by the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, the Sacramento County Executive's Office – The Office of Economic Development and the U.S. Air Force, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Alan A. Matré, CPA
Chief of Audits

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Agreement Revenues and Expenditures

	Reported by <u>Office</u>	<u>Reviewed</u>	<u>Variance¹</u>
Revenues	\$ 55,867	51,667	4,200
Expenditures	(178,154)	(177,857)	(297)
Interest Revenues/ (Expenditures)	<u>(401)</u>	<u>(401)</u>	<u> </u>
Net Revenues/ (Deficits)	<u>\$ (122,688)</u>	<u>(126,591)</u>	<u>3,903</u>

¹ Variance represents revenues and expenditures incurred outside of reporting period. See Attachment III, *Current Finding and Recommendation*.

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**CURRENT STATUS OF PRIOR REVIEW FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2015, REPORT DATED
JULY 18, 2017**

1. Expenditure Allocations

Prior Finding

The Office of Economic Development (the Office) used various percentage allocations when recording and reporting revenue and expenditures benefiting the EDC property. Upon review of these percentage allocations, there was no documentation to support these various allocations. The percentages that were used were between 20% and 100% of the various revenue and expenditure types and categories. Even though the Office was consistent in applying these percentages, we could not determine if they were reasonable allocation of the revenue and expenditures to the EDC property.

Prior Recommendation

We recommended the Office base any allocations on percentages that are documented and maintained by the Office. We further recommended that these allocations be accepted and approved in the Economic Development Conveyance Agreement language.

Prior Management Response

The Office concurs with the recommendation that allocations be based on percentages that are documented and maintained by the Office. The Office in connection with this financial review has already provided a summary matrix to the Department of Finance. The summary matrix included allocation percentage figures where costs incurred by the Office were shared costs and Management determined that the allocation of a proportionate share of the overall cost item is appropriate. The summary matrix was also provided to local US Air Force management. Since this was the first financial review associated with the EDC properties the allocation percentages are new percentages. These allocation percentages will be used in documenting expenses going forward. When Management determines that an allocation percentage requires adjustment to ensure expenses or revenues are correctly assigned to the EDC properties they will be adjusted as determined by Management in coordination with the US Air Force.

The Office disagrees with the recommendation that allocations be accepted and approved in the EDC language. Activities including, but not limited to, planning, engineering, environmental permitting, construction, property management, leasing and sales associated with the economic redevelopment of the EDC properties are dynamic. Further, the redevelopment of these properties is being coordinated and undertaken with redevelopment of other properties providing for coordinated development sharing of costs. It was not possible

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to identify all possible revenue and expenditure items and allocation percentages in advance undertaking the redevelopment of this property. This is the purpose in part for the EDC agreement and the partnering of the Office and Air Force for the transition of property formerly used for military purposes to civilian purposes. The Office and Air Force mutually agreed to the EDC language which provided structure for transition of the property from Air Force to the Office and gives the Office the ability to reinvest proceeds received from the redevelopment furthering the goals of this community and the Air Force.

The following is our justification for expenditure allocation.

Expense Item	Description	2013 EDC	Explanation of percentage allocations
Holland & Knight IO 121510	Legislative Advocacy Services	20%	The Office assigned 20% of the costs of this item based on the Office Managements' determination of the portion of H&K services costs tracked by this Internal Order benefiting the EDC parcels which total 699 acres for H&K's assistance with various Federal Agencies for the holistic redevelopment of the former military facility.
County Counsel IO 121240	Legal Services	75%	The Office assigned 75% of the costs of this item based on the Office Managements' determination of the portion of CC's costs tracked by this Internal Order benefiting the EDC for negotiations with MSLLC for their 590 ac site (EDC Parcel).
Corps of Engineers IO 122788	Environmental Impact Statement (EIS Permit)	75%	The Office assigned 75% of the costs of this item based on the Office Managements' determination of the portion of COE costs tracked by this Internal Order benefiting the EDC as their focus was on the 590 ac site (EDC Parcel).
DERA IO 124342	Environmental Review and Documentation	75%	The Office assigned 75% of the costs of this item based on the Office Managements' determination of the portion of DERA costs tracked by this Internal Order benefiting the EDC for work efforts focused on the 590 ac site (EDC Parcel).
Triple HS Inc IO 122788	Preparation of Wetlands Management Plan	75%	The Office assigned 75% of the costs of this item based on the Office Managements' determination of the portion of Triple HS services costs tracked by this Internal Order for preparation of the Wetland Management Plan that benefited the EDC parcels.
Ind/Dir/OH,6th floor rent for South Mather Reuse IO 122789	Redevelopment of the Southern portion of Mather.	20%	The Office assigned 20% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order benefiting the EDC Parcels.
South Mather Reuse Plan IO 122789	Redevelopment of the Southern portion of Mather.	20%	The Office assigned 20% of the costs of this item based on Office Managements' determination of the portion of costs tracked by this Internal Order benefiting the EDC Parcels.
Mather Regional Park Soccer-Rugby Lease IO 124777	Staff costs (Salary and Benefits, Indirect and Overhead Costs)	100%	The Office assigned 100% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order associated with the Soccer-Rugby Lease to the 89 ac EDC Parcel.
Mather Regional Park Land Imp Maintenance IO 122858	Park Operations, Maintenance and Administration	100%	The Office assigned 100% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order for Regional Parks maintenance benefiting the EDC Parcel.
SMUD Utility bills IO 125086	Electric Bills	100%	The Office assigned 100% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order for SMUD utility bills benefiting the 20 ac EDC Parcel.
County Real Estate IO 18098	Staff costs (Salary and Benefits, Indirect and Overhead Costs)	50%	The Office assigned 50% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order for County Real Estate services benefiting the Community Campus and the facilitation of the EDC Parcel in the Commerce Center.
Property Insurance IO 125086	Property Insurance Premiums	31%	The Office assigned 31% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order benefiting EDC building square footage.
Mather Community Campus IO 125087	Overall management of roughly 40 acres of the Community Campus that is 1/2 EDC and 1/2 PBC	50%	The Office assigned 50% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order benefiting the EDC Parcel from working with the Community Campus and the facilitation of the EDC Parcel in the Commerce Center.
Ind/Dir/OH,6th floor rent for Mather Community Campus IO 125086	Overall management of roughly 40 acres of the Community Campus that is 1/2 EDC and 1/2 PBC	50%	The Office assigned 50% of the costs of this item based on the Office Managements' determination of the portion of costs tracked by this Internal Order benefiting the EDC Parcel from Econ Dev working with the Community Campus and the facilitation of the EDC Parcel in the Commerce Center.

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Current Status of Prior Review Finding

We did not note any unsubstantiated allocated costs reported in the current year's Statement of Net Revenues/(Deficits).

2. Prior Fiscal Period Program Expenditures

Prior Finding

The Office claimed \$16,445 in expenditures that were for activities that did not occur for the fiscal period under review. The \$16,445 in prior fiscal period program expenditures was comprised of 5 invoices out of the 37 total individual expenditure charges that were reviewed as part of our testing. Expenditures should be reported in the fiscal year that the associated activities occurred in. The resulting effect was the Office was claiming expenditures that did not occur in the current fiscal period.

Prior Recommendation

We recommended the Office only claim expenditures related to activities that occur in the correct fiscal year that is being reported.

Prior Management Response

The Office is in agreement that that the \$16,445 of noted expenditures were for activities occurring outside of the July 1, 2014 to June 30, 2015 period of review. These expenditures, payments for professional services and an electricity bill, are for activity that occurred within the Economic Development Conveyance Agreement (EDCA) Reinvestment Period which began April 26, 2013 (the effective date of the EDCA). For three of the five noted expenditures the service provider invoice dates were June 27, 2014, July 8, 2014 and July 21, 2014 respectively. These invoices together with the invoices for the two other noted expenditures were all paid following June 30, 2014.

The Office disagrees with the recommendation that the Office only claim expenditures related to activities that occur in the fiscal year that is being reported. Due to the timing of receipt of invoices and processing times for issuing warrants to service providers this is not always possible. However, the Office will use its best efforts to process invoice payments when possible so that expenditures and associated activities occur in the same reporting period.

Current Status of Prior Review Finding

The Office claimed \$297 in expenditures outside of reporting period in current fiscal year compare to \$16,445 in prior fiscal period. See current finding at Attachment III.

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CURRENT FINDING

1. Prior Fiscal Period Program Expenditures

Finding

According to the EDC Revenue Sharing Agreement, Section 1, Net Shared Revenue "Calculation Period" means the period of time that precedes each Calculation Date (fiscal year end) used to compare the Eligible Revenues to the Allowable Expenses. As such, only revenues and expenses incurred within applicable fiscal year should be reported in the Statement of Agreement Revenues and Expenditures.

Based on our review, the Office of Economic Development (the Office) did not accrue revenues and expenditures within proper fiscal period and included in the Statement of Agreement Revenues and Expenditures, revenues and expenditures for activities that did not occur in the reporting period under review, in the amount of \$4,200 for Parking lease revenues and \$297 for Division Overhead (\$234) and Electricity expenditures (\$63), respectively. As a result, the Office is noncompliant with the Mather EDC Revenue Sharing Agreement by inaccurately reporting revenues and expenditures in the Statement of Agreement Revenues and Expenditures.

Recommendation

We recommend the Office establish and implement internal control policies and procedures to properly accrue revenues and expenditures within applicable fiscal period to ensure accurate reporting of its revenues and expenditures in the Statement of Agreement Revenues and Expenditures.

Management Response

The Office of Economic Development (Office) is in agreement that that \$4,200 in Parking lease revenue and \$63 in Electricity and \$234 of Division Overhead expenditures were not accrued within the Fiscal Year 2015-16. The credit and debits were posted in the County's financial accounting system in July 2015 because: the Office received the payment for the month of June 2015 parking in July 2015; the Office paid the electric bill for June/July 2015 in July 2015; and the Division Overhead allocation associated with staff labor in connection with the EDC property for January through June 2015 was assessed in July 2015.

The Office will take into consideration of the recommendation that the Office accrue revenues and expenditures related to activities that occur in the fiscal year that is being reported. The Office uses its best efforts to process receipt of revenues and invoice payments when possible so that activity and associated expenditures and revenues occur in the same reporting period.

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Due to the variability of payments received, variability of amounts charged and timing of receipt of invoices, and processing times for issuing warrants to service providers this is not always possible.