

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT

THE OFFICE OF ECONOMIC DEVELOPMENT FORMER MATHER AIR FORCE BASE ECONOMIC DEVELOPMENT CONVEYANCE AGREEMENT

PERFORMANCE AUDIT

FISCAL YEAR ENDED JUNE 30, 2020



Audit Committee Submittal Date: 10/27/2020

SUMMARY

Background

The United States Air Force and Sacramento County entered into an Economic Development Conveyance (EDC) Agreement on April 26, 2013 for the transfer of a portion of the former Mather Air Force Base property. The County is required to submit to the United States Air Force audited annual financial statements during the Agreement term. The Office of Economic Development (Economic Development) manages the Agreement and is responsible for providing documentation for the financial statements.

Audit Objective

To verify Economic Development's schedule of Agreement Revenues and Expenditures is in compliance with Former Mather Air Force Base Economic Development Conveyance Agreement for the Fiscal Year ended June 30, 2020.

Summary

Based on our audit, Economic Development's schedule of Agreement Revenues and Expenditures complied with the Mather EDC Agreement. However, we recommend Economic Development ensure internal controls are in place regarding timely monitoring of allowable expenditures.

Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

September 21, 2020

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

We have audited the Schedule of Agreement Revenues and Expenditures of the County of Sacramento, the Office of Economic Development (Economic Development) related to the Former Mather Air Force Base Economic Development Conveyance Agreement (Mather EDC Agreement) for the fiscal year ended June 30, 2020.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit was conducted to verify the Economic Development's compliance with the Mather EDC Agreement regarding the Schedule of Agreement Revenues and Expenditures for the fiscal year ended June 30, 2020 and Economic Development has adequate internal control to ensure the accurate reporting of the financial schedule of the Mather EDC.

Management is responsible for the design, implementation, and maintenance of effective internal control to ensure compliance with the Mather EDC Agreement.

The scope of our audit included revenues and expenditures of the Mather EDC for the fiscal year ended June 30, 2020.

The audit methodology utilized to conduct this performance audit included:

Internal Control Review

- We reviewed and evaluated internal control over Economic Development's Mather EDC Agreement revenues and expenses.

Mr. Troy Givans, Director
The Office of Economic Development
September 21, 2020

Document Review:

- We reviewed the Mather EDC Agreement applicable to the fiscal year ended June 30, 2020 to identify compliance requirements for the Agreement.
- We reviewed leases and contracts related to the Mather EDC Agreement for proper recording and purpose consistent with contract terms.

Testing:

- We reviewed the Mather EDC Agreement revenues and traced all receipts to the Sacramento County Treasury Deposit.
- We reviewed the Mather EDC Agreement revenues and expenditures for completeness, reasonableness and the use of proper accounting method.
- We selected and tested all items reported in the schedule of revenues. We haphazardly selected and tested \$71,399 expenditure transactions of which 41% of total reported allowable expenditures (\$172,209). See Attachment I, *Schedule of Agreement Revenues and Expenditures*.

In connection with this audit, there are certain disclosures that are necessary pursuant to *Generally Accepted Government Auditing Standards*.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Generally Accepted Government Auditing Standards*' independence standards. Specifically, "auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit."

Although the Director of Finance is statutorily obligated to maintain the accounts of departments, districts or funds that are held in the County Treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

Based on our audit, Economic Development's Schedule of Agreement Revenues and Expenditures complied with the Mather EDC Agreement. However, we have a recommendation regarding Economic Development's internal control regarding timely monitoring of allowable expenditures. See Attachment II, *Current finding and Recommendation*.

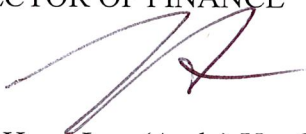
Mr. Troy Givans, Director
The Office of Economic Development
September 21, 2020

Economic Development's management response to the recommendation identified during our audit is described in Attachment II, *Current Finding and Recommendation*. We did not perform procedures to validate Economic Development's management response to the recommendation and, accordingly, we do not express opinion on the response to the recommendation.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, those charged with governance, Sacramento County Executives, Sacramento County Audit Committee, Economic Development's management, and United States of America Air Force, and should not be used for any other purpose. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA
Audit Manager

Enclosures:

Attachment I, *Schedule of Agreement Revenues and Expenditures*

Attachment II, *Current Finding and Recommendation*

Attachment III, *Current Status of Prior Finding and Recommendation*

County of Sacramento
The Office of Economic Development
Former Mather Air Force Base Economic Development Conveyance Agreement
(Mather EDC)
Performance Audit
Schedule of Agreement Revenues and Expenditures
For the Fiscal Year Ended June 30, 2020

| | <u>Amount Reported</u> | <u>Amount Audited</u> | <u>Variance</u> |
|---------------------------------------|----------------------------|---------------------------|-----------------|
| Total Revenues | | | |
| Ground Leases - Other | \$ 48,226 | 48,226 | |
| Operating Expenditures | | | |
| Property Insurance | 2,916 | 2,916 | |
| Building Maintenance Services | 8,677 | 8,677 | |
| Land Improvement Maintenance Services | 126,931 | 126,931 | |
| Permit Charges | 362 | 362 | |
| Accounting and Audit Services | 22,309 | 22,309 | |
| Environmental Services | 97 | 97 | |
| Real Estate Services | 5,335 | 5,335 | |
| Tax/License/Assessment | 735 | 735 | |
| Personnel Services | 4,847 | 4,847 | |
| Total Operating Expenditures | <u>172,209</u> | <u>172,209</u> | |
| Interest Expenditures | <u>9,169</u> | <u>9,169</u> | |
| Net Revenues/(Deficits) | <u>\$ (133,152)</u> | <u>(133,152)</u> | |

County of Sacramento
The Office of Economic Development
Former Mather Air Force Base Economic Development Conveyance Agreement
(Mather EDC)
Performance Audit
Current Finding and Recommendation
For the Fiscal Year Ended June 30, 2020

CURRENT FINDING

1. Timely Monitoring of Allowable Expenditures

Finding

The Office of Economic Development (Economic Development) has established and implemented a written, internal control policy and procedure regarding financial reporting of activities related to the Mather EDC Agreement. At the close of each accounting period, Economic Development staff reviews the transactions posted and researches to determine that the Mather EDC transactions have been specifically identified, or any transactions indicating which percentage of the expenditure is attributed to the Mather EDC.

County of Sacramento Department of Regional Parks (Regional Parks) handles the accounting and management of the Regional Parks-managed portion of the Mather EDC properties, including posting/recording of expenditures. To date, Regional Parks has provided the cost information to Economic Development at the end of the fiscal year, and upon receipt of the information, Economic Development worked with Regional Parks to verify such expenditures. The reported expenditures related to the Mather EDC properties are both reconciled between Economic Development and Regional Parks.

However, during the audit, Economic Development had revised its allowable expenditure amounts reported in the Schedule of Agreement Revenues and Expenditures twice. Although there was a reconciliation and review for the allowable expenditures, it is very crucial to prepare and update the reported expenditures on a regular basis, not just for the annual audit. We did not note exceptions from the final version of the financial schedule. However, changing the financial schedule during the audit would indicate lack of preparation and timely review of information and a weakness in internal control. This also creates the potential for risk of untimely and incomplete reporting information. This could also result in inefficiencies, duplicate audit effort by auditors if major expenditures must be re-selected, the potential for audit restatement, and/or additional audit costs.

Recommendation

We recommend Economic Development ensure internal controls are in place regarding timely monitoring of allowable expenditures. Internal controls should be designed to prevent, detect, or correct errors in a timely manner. Economic Development should review Mather EDC expenditures with Regional Parks throughout the year to identify allowable expenditures for reporting under audit in a timely and efficient manner.

**County of Sacramento
The Office of Economic Development
Former Mather Air Force Base Economic Development Conveyance Agreement
(Mather EDC)
Performance Audit
Current Finding and Recommendation
For the Fiscal Year Ended June 30, 2020**

Management Response

The Office of Economic Development (Economic Development) agrees with the recommendation. Economic Development is also considering conducting quarterly meetings with Regional Parks to ensure timely and accurate reporting of its allowable expenditures in the Schedule of Agreement Revenues and Expenditures.

County of Sacramento
The Office of Economic Development
Former Mather Air Force Base Economic Development Conveyance Agreement
(Mather EDC)
Performance Audit
Current Status of Prior Finding and Recommendation
For the Fiscal Year Ended June 30, 2020

CURRENT STATUS OF PRIOR REVIEW FINDING AND RECOMMENDATION FOR THE PERIOD JULY 1, 2018 THROUGH JUNE 30, 2019, REPORT DATED SEPTEMBER 9, 2019

1. Inaccurate Expenditure Reporting and inadequate Internal Control Policies and Procedures

Prior Recommendation

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

Current Status of Prior Audit Recommendation

Economic Development has provided us a copy of their written, internal control policy and procedure regarding financial reporting of activities related to the Mather EDC Agreement. This policy and procedure includes instructions for proper accrual of revenues and expenditures. However, we have a recommendation regarding Economic Development's internal control regarding timely monitoring of allowable expenditures. See Attachment II, *Current finding and Recommendation*.