

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: October 28, 2019

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, 2019.

Summary

We noted an issue related to the timing of expenditure reporting and internal controls over financial reporting of activities related to the Mather EDC Agreement.

Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

September 9, 2019

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

We have audited financial schedules of the County of Sacramento, the Office of Economic Development (the Office) related to the Former Mather Air Force Base Economic Development Conveyance Agreement (Mather EDC) for the fiscal year ended June 30, 2019.

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 Office's compliance with the Mather EDC Agreement for the fiscal year ended June 30, 2019 and the Office has adequate internal control to ensure the accurate reporting of the financial schedules 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, 2019.

The audit methodology utilized to conduct this performance audit included:

Internal Control Review

- We reviewed, updated, and evaluated internal control over the Office's the Mather EDC Agreement revenues and expenses.

Mr. Troy Givans, Director
County Executive's Office – The Office of Economic Development
September 9, 2019

Document Review:

- We reviewed the Mather EDC Agreement applicable to the fiscal year ended June 30, 2019 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 100% of the revenues and expenditures due to small volume of the transactions. See Attachment I, *Statement 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, the Office complied with the Mather EDC Agreement except for expenditure reporting for the fiscal year ended June 30, 2019 and not maintaining adequate internal controls to ensure accurate reporting of the financial schedules of the Mather EDC. 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*.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, the Office's management, and United States

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County Executive's Office – The Office of Economic Development
September 9, 2019

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: Alan A. Matré, CPA
Chief of Audits

Enclosures:

Attachment I, *Statement of Agreement Revenues and Expenditures*
Attachment II, *Current Status of Prior Finding and Recommendation*
Attachment III, *Current Finding and Recommendation*

County of Sacramento
County Executive's Office -
The Office of Economic Development
Former Mather Air Force Base Economic Development Conveyance Agreement
(Mather EDC)
Performance Audit
Statement of Agreement Revenues and Expenditures
For the Fiscal Year Ended June 30, 2019

Agreement Revenues and Expenditures

	Amount Reported by Office	Amount Audited	Variance ²
Total Revenues ¹			
Ground Leases - Other	\$ 50,428	50,428	
Operating Expenditures			
Property Insurance	3,948	3,948	
Building Maint Svc	5,312	5,312	
Land Improvement Maint Svc	205,194	205,194	
Permit Charges ²	679	479	200
Accounting Svc	41,810	41,810	
Environmental Svc			
Lab Non-Medical Svc			
Tax/License/Assessment	713	713	
Personnel Svc	2,590	2,590	
Total Operating Expenditures	<u>260,246</u>	<u>260,046</u>	200
Interest Expenditures	<u>9,159</u>	<u>9,159</u>	
Net Revenues/ (Deficits)	<u>\$ (218,977)</u>	<u>(218,777)</u>	<u>(200)</u>

¹ The amount invoiced to the Boeing Company (Boeing) for the fiscal year 2017/2018 groundwater extraction well permit annual fee in the amount of \$1,344.05 was not received by the Office due to a dispute between County and Boeing over annual permit fees and the outcome of the dispute was unknown as of prior reporting date. This amount was settled and received in November 2018, therefore, included in this reporting period.

² The variance represents the water right permit fee incurred in the fiscal year 2017/2018 but paid in the fiscal year 2018/2019. This amount should have been accrued and reported in the fiscal year 2017/2018. See Attachment III, *Current Finding and Recommendation*.

County of Sacramento
County Executive's Office -
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, 2019

**CURRENT STATUS OF PRIOR REVIEW FINDING AND RECOMMENDATION FOR
 THE PERIOD JULY 1, 2017 THROUGH JUNE 30, 2018, REPORT DATED
 DECEMBER 7, 2018**

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

Prior 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 have any written policies and procedures regarding financial reporting of activities related to the Mather EDC Agreement. In addition, we noted that the Office did not accrue revenues and expenditures consistently year to year.

During our testing of expenditures, fiscal year 2014/2015 audit expenditure, in the amount of \$16,675, incurred and invoiced in fiscal year 2016/2017 but paid in fiscal year 2017/2018 was not properly accrued in fiscal year 2016/2017. The Office included this amount in fiscal year 2017/2018 expenditure reporting. As such, the Office is noncompliant with the Mather EDC Revenue Sharing Agreement by inaccurately reporting expenditures in the Statement of Agreement Revenues and Expenditures.

Prior Recommendation

We recommend the Office 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.

Prior Management Response

The Office of Economic Development (Office) is in agreement that, for the Fiscal Year beginning July 1, 2016 and ending June 30, 2017, \$16,675 in audit costs detailed in an invoice dated June 30, 2017, from the County Auditor-Controller Division to the Office, were neither accrued by the Office in the County's financial accounting system nor reported by the Office in the EDC Statement of Agreement Revenues and Expenditures. Instead the Office made payment to the Auditor-Controller Division for the \$16,675 in audit costs in August 2017 and

**County of Sacramento
County Executive's Office -
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, 2019**

has included the \$16,675 in the EDC schedule of revenues and expenditures for the Fiscal Year beginning July 1, 2017 and ending June 30, 2018.

The Office has taken the above finding and recommendation into consideration. The Office processes receipt of revenues and payment of invoices when possible so that operations and activities in connection with the EDC property and associated revenues and expenditures occur in the same reporting period. In this case, the Office received the \$16,675 invoice on June 30, 2017 and payment occurred in August 2017 following review of the invoice for appropriateness of the costs and management approval of invoice payment.

The Office does not agree with the above finding of the Auditor that the Office is noncompliant with the Revenue Sharing Agreement by inaccurately reporting expenditures in the Statement of Agreement Revenues and Expenditures. Under the Revenue Sharing Agreement the Office had no obligation to accrue the \$16,675 in audit costs.

Current Status of Prior Review Finding

The Office did not implement our recommendation. See Attachment III, *Current Finding and Recommendation*.

**County of Sacramento
County Executive's Office -
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, 2019**

CURRENT FINDING

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

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 have any written policies and procedures regarding financial reporting of activities related to the Mather EDC Agreement.

During our testing of expenditures, we noted that the water right permit fee, in the amount of \$200, incurred in fiscal year 2017/2018 but paid in fiscal year 2018/2019 was not properly accrued in fiscal year 2017/2018. The Office included this amount in fiscal year 2018/2019 expenditure reporting. As such, the Office is noncompliant with the Mather EDC Revenue Sharing Agreement by inaccurately reporting 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 in a consistent manner to ensure accurate reporting of its revenues and expenditures in the Statement of Agreement Revenues and Expenditures.

Management Response

The Office of Economic Development has now established and implemented a 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.