



CITY OF BANNING STAFF REPORT

TO: BUDGET AND FINANCE COMMITTEE

FROM: Lincoln Bogard, Administrative Services Director

PREPARED BY: Lincoln Bogard, Administrative Services Director

MEETING DATE: November 19, 2024

SUBJECT: Review of External Audit Findings from Fiscal Year 2022-23 Annual Comprehensive Financial Report

BACKGROUND:

Committee member Flynn requested that staff bring back an update on the timing of when the findings resulting in audit adjustments occurred. Most of the material adjustments noted in the ACFR related to previous years under predecessor external auditors purview.

JUSTIFICATION:

During the audit, we identified adjustments, which were proposed and posted, as follows:

- The Riverside Public Utility cash account and accounts payable were overstated in the amount of \$1,127,951 within the electric fund. A payment to RPU was made prior to fiscal year-end that should have reduced cash and accounts payable balances was not recorded. The result is an overstatement of assets and liabilities, but does not impact net income or net position. Staff training has been performed to mitigate this error from reoccurring.
- Depreciable assets and related liability for a vactor truck within the wastewater fund were reclassified into traditional capital assets and long-term debt out of right-of-use assets and lease liabilities as it was deemed to not qualify as a lease under GASB 87. The vactor truck had been recorded as a lease under GASB 87, but it is actually a lease finance purchase and should be reported like a purchased capital asset. No financial impact, but rather a classification impact in the Long-Term Debt Footnote. Staff training has been performed to mitigate this error from reoccurring.
- Borrowings and capital outlay relating to SBITAs were understated in the amount of \$106,550 within the community development block grant fund. This relates to the implementation of a new GASB standard for SBITA. The governmental portion of the entry was not identified. Staff training has been performed to mitigate this error from recurring.
- Borrowings and capital outlay relating to leases were understated in the amount of \$1,123,513 within the general fund and park development fund
- Revenue and the unearned liability relating to the refuse franchise fee were overstated in the amount of \$225,000. This relates to the implementation of a new GASB standard for Leases. The governmental portion of the entry was not identified. Staff training has been performed to mitigate this error from recurring.
- Revenue was overstated and the unavailable deferred inflow was understated for developer monies received outside of the 60-day availability period totaling \$248,194 within the developer deposit fund. Staff training was conducted to explain that the revenue lookback is a firm number of days, while the expense lookback is not. Any material expenses from the year under audit must be recorded up until ACFR issuance.
- Revenue was overstated and the unavailable deferred inflow was understated for PACT AB109

monies received outside of the 60-day availability period totaling \$177,223 within the general fund. Staff training was conducted to explain that the revenue lookback is a firm number of days, while the expense lookback is not. Any material expenses from the year under audit must be recorded up until ACFR issuance.

- Revenue was overstated and the unavailable deferred inflow was understated for Cannabis sales and use tax monies received outside of the 60-day availability period totaling \$476,805 within the general fund. Staff training was conducted to explain that the revenue lookback is a firm number of days, while the expense lookback is not. Any material expenses from the year under audit must be recorded up until ACFR issuance.
- General fund allowance for doubtful accounts was understated in the amount of \$93,436. Staff training has been performed to explain the need for a 100% allowance on receivables that are more than a year old. This impacts the city because we currently track accounts receivables on a spreadsheet. We will be implementing an accounts receivable module that will automate write-offs and allowances in the coming year.
- Internal service expenses and accrued liabilities were understated within the internal service funds relating to litigation settlements and totaled \$85,600. Two settlements were invoiced and paid after fiscal year-end that were pertaining to litigation that was active in the year under audit. Staff training has been performed to ensure that these activities are recorded properly in the event that settlements become due after fiscal year-end, but pertain to the year under audit.

Corrections of errors to prior year financial statements were posted, as follows:

- A restatement was recorded to the governmental activities, business-type activities, and electric utility fund beginning net position, as well as general fund balance to remove an advance between the funds that was not properly removed in a prior fiscal year. The restatement increased governmental activities net position, decreased business-type activities and electric utility fund beginning net position, and increased general fund balance by \$394,118. Dates back to Fiscal Year 2009. The entry was recorded incorrectly and was supposed to be a cash loan to the General Fund, but actually increased Electric Net Position and decreased General Fund Fund Balance. Entry reversed in Fiscal Year 2022-23 by staff.
- A restatement was recorded to the governmental activities beginning net position and general fund balance to remove a receivable that had been recognized as revenue in prior years totaling \$708,520 and to recognize a developer deposit collected in prior years totaling \$41,141. The restatement reduced governmental activities beginning net position and general fund balance by \$749,661. The City was aggregating amounts asserted to be billed by third parties but not billed/invoiced. Timely and regular billings did not occur. Management informed Community Development about the error in recording of permit activity to developer deposits in FY 2022-23; however, correcting entries for prior years were not identified until after the year under audit. Corrections have been made and training has been completed with Community Development staff. These errors date back from Fiscal Year 2018-19 through 2021-22.
- A restatement was recorded to the governmental activities beginning net position and general fund balance to increase unearned revenue that had been recognized as revenue in prior years. The restatement reduced governmental activities beginning net position and general fund balance by \$304,304. Dates back to Fiscal Year 2021-22 and relates to training provided regarding revenue lookbacks pertaining to a set number of days, while expense lookbacks continue until ACFR issuance date.
- A restatement was recorded to business-type activities and refuse utility beginning net position to increase unearned revenue that had been recognized as revenue in prior years. The restatement reduced business-type and refuse utility fund beginning net position by \$4,275,000. This entry was recorded as revenue upon contract execution in FY 2020-21, but should have been unearned revenue and recognized into revenue annually for the term of the agreement (20 years).
- A restatement was recorded to the governmental activities and private-purpose trust fund successor agency beginning net position to reduce land held for resale under the successor

agency and reclassify them as land under governmental activities. The restatement increased governmental activities net position and decreased private purpose trust fund successor agency beginning net position by \$4,675,556. The assets were transferred by approved Council action in Resolutions 2011-09 and 2021-99. These adjustment entries date back to Fiscal Years 2010-11 and 2020-21.

- A restatement was recorded to the governmental activities and private-purpose trust fund successor agency beginning net position to transfer capital assets erroneously recognized as successor agency fund capital assets in prior years. The restatement increased governmental activities net position and decreased private-purpose trust fund successor agency beginning net position by \$6,775,155. These adjustment entries date back to Fiscal Years 2010-11 and 2020-21.
- A restatement was recorded to the beginning net position of the business-type activities in the amount of \$853,513, the Banning Utility Authority water fund in the amount of (\$19,183), electric utility fund in the amount of \$681,456, Banning Utility Authority wastewater fund in the amount of \$132,275, and refuse utility fund in the amount of \$58,965 to record receivable balances incurred but not recorded in the prior year. The restatement reduced the beginning net position by \$19,183 for the Banning Utility Authority water fund and increased the beginning net position by \$681,456 for the electric utility fund, by \$132,275 for the Banning Utility Authority wastewater fund and by \$58,965 for the refuse utility fund. Staff is currently having conversations with the external auditors regarding these entries. They should have been accruals for revenues occurring after fiscal year-end, not beginning fund balance adjustments. The ending net positions were correct, except for \$117,274.52 in the Electric Fund and an \$875 transfer needed from Water to Refuse. Staff is identifying the proper recording of this with the external auditors at this time.

Additionally, instances occurred throughout audit fieldwork where subsidiary listings either could not be generated to support account balances or did not agree to the general ledger. A subsidiary listing could not be generated for accounts payable. Within capital assets, the City reclassified business-type accumulated depreciation balances from prior year audits to agree to subsidiary listings. Council authorized staff to hire a consultant to assist with the current fiscal year-end close. Staff has now created subsidiary ledger reconciliation templates for all applicable general ledger accounts. We have reconciled the vast majority of accounts for FY 2023-24 audit.

During testing of subscription-based information technology arrangements (SBITAs), as part of the implementation of GASB Statement No. 96, two agreements were improperly excluded, resulting in an uncorrected misstatement. Lease asset and liability figures recorded in the general ledger differed from the related amortization schedules, resulting in an uncorrected misstatement. These were new GASB standard implementations and management has held training with staff regarding how to complete the checklist to determine applicability for inclusion in Leases and SBITA reporting. The consultant assisting with year-end close processes is currently reviewing staff work.

The City's net investment in capital asset calculation erroneously excluded deferred charges, deferred gain on refunding, lease/SBITA activity, and unspent bond proceeds. The calculation erroneously included accrued interest. Lease and SBITA pertain the the new standard implementations and management has worked with the external auditors to correct. The consultant assisting with year-end close processes has provided a better template for the calculation of net investment in capital assets.

FISCAL IMPACT:

None. Adjustments have already been recorded.

ALTERNATIVES:

Provide direction to staff.

BUDGETED?:

No

ATTACHMENTS:

1. [City of Banning 2023 Final Single Audit Report.pdf](#)