



550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Sacramento Transportation Authority
Sacramento, California

We have performed the procedures enumerated in Attachment I, which were agreed to in advance by the Sacramento Transportation Authority (Authority), solely to assist the Authority in determining whether the City of Isleton's internal controls are appropriate to ensure proper future expenditure of capital Measure A funds. The City of Isleton's management is responsible for establishing and maintaining internal controls over these activities. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures performed as outlined in Attachment I, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the City's internal controls and compliance with the provisions of Measure A. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of the aforementioned information in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Isleton and the Sacramento Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

January 16, 2017

ATTACHMENT I
PROCEDURES PERFORMED

1. Procedure: Review copy of the City's audit report, including management letter and determine impact of any comments on the City's ability to properly manage Measure A funds.

Finding: The City has not had a financial statement audit since the year ended June 30, 2014. We obtained and reviewed the audit report, which included four findings. One of the findings that could relate to Measure A is that the City needs to develop policies and procedures. The City has now developed policies and procedures and we were provided a copy of the policies and procedures related to the Measure A funds, so it appears this finding has been addressed. The City has indicated they are in the process of preparing for the 2015 audit.

As of January 2017, the June 30, 2015 and 2016 audits were not completed, which could be an indication of issues affecting the City's ability to properly track and record Measure A funds, among other City funds. The current Assistant City Manager assumed the accounting for the City in August of 2016 and the City Manager retired on December 14, 2016, so personnel changes have taken place since the 2014 audit has been completed. The City has provided their 2015 documents for audit to their auditor and expected to have it completed within the next month. The reason for the delay is that the City has been working on establishing self-balancing funds within their accounting system.

The City plans to establish a new fund within their accounting system to track payroll and other costs associated with capital Measure A revenues. The City also has a separate bank account for Measure A funding that facilitates the separate tracking of these funds.

2. Procedure: Walk through how the direct labor hours are charged in the general ledger (GL), and how they are included in the amount claimed for Measure A reimbursement for a sample of 2 employees. We performed the following procedures:
 - a. Obtained an understanding of how labor costs are tracked.
 - b. Determined how these amounts are allocated to Measure A.
 - c. Tested two employees to determine appropriateness of amounts charged to Measure A fund.

Finding: We performed a walkthrough of controls over the labor hours and how they are charged in the GL system to determine the process for allocating costs to the Measure A fund. We reviewed time sheets, payroll reports, fund payroll allocation spreadsheets that documents the allocation of payroll costs to funds based on hours worked, postings to the GL, approved pay rates and pay stubs for one pay period and for two employees who worked on Measure A projects.

Hours for Measure A are tracked by project. Payroll taxes and benefits are prorated based on the numbers of hours worked by fund. Payroll tax rates are multiplied by the wages earned for the period by fund. Workers comp, vacation, sick, dental, and medical costs are allocated by applying a rate based on these costs to hours worked by fund. We noted pay rates are approved, timesheets are approved, payroll is processed by a third party, and calculated amounts are properly posted to the GL.

3. Procedure: Walk through how the City determines the costs to be reimbursed by Measure A and tracks them in the general ledger to prevent expenditures from being reimbursed by more than one revenue source, such as by separate tracking by fund or project code, for a sample of two expenditures. Includes determining the City's procedures for review and approval of expenditures. We performed the following procedures:

ATTACHMENT I
PROCEDURES PERFORMED

- a. Determined that the invoice paid was reviewed and approved according to the City's Policies and Procedures by requiring the City Manager/Assistant City Manager to sign and attach a purchase order and an invoice prior to payment.
- b. Evaluated whether the payee/vendor appeared to be appropriate considering the description of the expense paid.
- c. Determined that the invoice and check copy were properly retained by the City for each payment.
- d. Determined the check was accrued to the proper fiscal year in the general ledger according to the period of service on the related invoice and properly recorded as a Measure A expenditure.
- e. Concluded on the whether procedures allow for proper tracking of Measure A funds.
- f. Determined costs to be reimbursed by Measure A can be tracked in the GL and procedures are in place to prevent expenditures from being reimbursed by more than one revenue source.

Finding: We reviewed a sample of 2 judgmentally selected expense checks from the City's check register from July 1, 2016 to December 19, 2016 to verify whether the payee/vendor appeared appropriate based on the description of the expense, the amount was supported by an invoice, check copy and other documentation was properly retained in the file, the check was signed by approved check signors and the check was posted to the proper general ledger account and period. These procedures were performed to determine whether segregation of duties exists between the approval and disbursements functions and that the disbursement was properly documented.

All disbursements tested had a purchase order form attached, check copies and invoices were available, payees appeared appropriate and all invoices appeared to be posted to the proper account and period. While the former Assistant City Manager was employed by the City, there was not proper separation between approval and disbursement functions (she initiated purchase orders, approved purchase orders, posted them to the GL, printed and signed checks). The current Assistant City Manager, who has been employed by the City since August 2016, does not initiate or approve expenditures. Invoices are now reviewed/approved by a Council member, who also signs checks. Although the Assistant City Manager prepares and mails the checks, she does not have signatory authority, thus improving internal controls. The City's Director of Public Works (currently the Acting City Manager) oversees Measure A projects and prepares purchase orders for these projects.

Recommendation: Additional improvement could be made by having the City Council more involved in the financial oversight of the City. The Council has been provided with check registers by fund since the new Assistant City Manager has taken over the accounting function and a Council member now reviews and signs the checks, but adding a comparison of budget to actual review by the City Council throughout the year (either monthly or quarterly) would strengthen controls.

4. Procedure: Determine whether the City seeks reimbursement or plans to seek reimbursement of indirect costs. If so, determine how the City segregates direct versus indirect costs and how indirect costs are allocated to funds or projects.

Finding: The City's indirect cost allocation methodology consists of using a fixed 15% rate to apply to actual employee hours coded on timesheets. However, the 15% rate is not supported by current expenses as the basis of the allocations.

Based on our discussion with City employees, the indirect cost allocation methodology has remained unchanged for a very long time, so even if a time study was done in the past it has not been reviewed or updated since any of the current employees have been with the City. Generally accepted

ATTACHMENT I
PROCEDURES PERFORMED

accounting principles requires indirect costs to be allocated using appropriate allocation bases for the pool of costs being allocated (i.e. current cost information) and the indirect cost allocation should be well documented to support the allocations made.

Recommendation: We recommend the City updated its indirect allocation percentage to use actual costs as the allocation basis.