

**City of
Foster City and Estero
Municipal
Improvement District**

Foster City, California

*Report on Internal Control over Financial
Reporting and on Compliance and Other
Matters based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards*

For the year ended June 30, 2023



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council of the City of Foster City
and the Board of Directors of the Estero Municipal Improvement District
Foster City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foster City and the Estero Municipal Improvement District (City/District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City/District's basic financial statements and have issued our report thereon dated December 4, 2023. Our report includes a reference to other auditor who audited the financial statements of the San Mateo Consolidated Fire Department (SMC Fire) as described in our report on the City/District's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City/District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City/District's internal control. Accordingly, we do not express an opinion on the effectiveness of the City/District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of finding and responses as item 2023-001 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of the City Council of the City of Foster City
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Report on Compliance and Other Matters

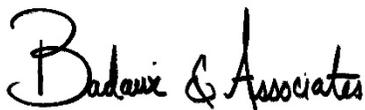
As part of obtaining reasonable assurance about whether the City/District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City/District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City/District's response to findings identified in our audit and described in the accompanying schedule of findings and responses. The City/District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates, CPAs
Berkeley, California
December 4, 2023

City of Foster City/Estero Municipal Improvement District
Schedule of Findings and Responses
For the year ended June 30, 2023

Current Year Findings

2023-001: Restatements of Previously Issued Financial Statements – Significant Deficiency

Criteria

The City/District is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. This includes having controls in place to detect and address errors, omissions, and misstatements in a timely manner.

Condition

The City/District recorded prior period adjustments to (1) correct loans receivable accounting, which had previously been offset by a corresponding deferred inflow of resources, rather than reporting it as part of the City/District's fund balance, and (2) include pension amounts relating to the Estero Municipal Improvement District's proportionate share.

Cause

The misstatement relating to loans receivable appears to be a misinterpretation of how to apply the accounting standards at the time the loans were given, and the City/District control procedures did not extend to review previously adopted accounting practices. The misstatement relating pension amounts of the Estero Municipal Improvement District was an oversight as the pension amounts relates to an old plan and the City/District has moved to a new plan.

Effect

The City/District's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

Recommendation

We recommend that the City/District expand its year-end closing to include formalized procedures for identifying, investigating, and correcting errors or misstatements in previously issued financial statements such as review of all accounts in the City's general ledger to ensure that amounts can be supported, are complete and are derived by correctly applying accounting standards.

Management Response

1. With reference to correcting the loan receivable accounting, the City staff disagrees with the Badawi and Associates' statement that the City' control procedures did not extend to review previously adopted accounting practices. Staff consulted and were advised by their former auditors of the accuracy of the previous treatment of these transactions. Staff also contacted other cities, and some have taken the approach recommended by Badawi and Associates while others continue to record their loan receivable accounting similar to how Foster City (without objection from their auditors) has done so over the past years. Additionally, the City's financial statements have not received any comments of concern on these transactions from the Governmental Finance Officers Association (GFOA) over the many years that the City has submitted its financial statements for their review. However, Badawi and Associates differed on this and recommended the City make the correcting journal entry. City staff concluded that it would accept Badawi and Associates' recommendation based on their explanation and supporting documents. Considering these details, the staff believes

City of Foster City/Estero Municipal Improvement District
Schedule of Findings and Responses
For the year ended June 30, 2023

Management Response, Continued

that the City's internal controls were working properly and our accounting treatment of the loan receivable was based on a good faith interpretation of proper accounting standards in consultation with our former auditors.

2. City Staff concurs with the auditors' comments related to the pension amounts.