



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Annual Comprehensive Financial
Report and Management Letter

DATE: March 16, 2022

City Administrator Approval

Date: Mar 28, 2022

RECOMMENDATION

Staff Recommends That The City Council Receive The Annual Comprehensive Financial Report (ACFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2021.

EXECUTIVE SUMMARY

The Finance Department is pleased to present to the City Council the attached independent annual audit, referred to as the Annual Comprehensive Financial Report (ACFR), and the auditor's required communication to City Council, also known as the Management Letter. This report was titled the Comprehensive Annual Financial Report (CAFR) in prior years and has been renamed at the direction of the Governmental Accounting Standards Board.

The audit report incorporates management's discussion and analysis of the City's financial position, basic financial statements, notes to basic financial statements, and the independent auditor's 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.

Macias, Gini & O'Connell, the City's external auditor, audited the City's financial statements for the year ending June 30, 2021 (Attachment A). The auditor's unmodified opinion letter for the ACFR affirms that the basic financial statements contained therein accurately represent the financial condition of the City of Oakland as of June 30, 2021. The auditor expressed an opinion that the City's financial statements are fairly stated and in accordance with accounting principles generally accepted in the United States.

The Fiscal Year (FY) 2020-21 ACFR provides relevant financial information to the City Council, residents and businesses of Oakland, creditors, investors, and other interested parties. This report also fulfills the City Council's responsibilities under Section 809 of the City Charter, which states in part, "The Council shall engage during the first month of each fiscal year an independent certified public accountant who shall examine and report to the Council on the annual financial statement of the City."

BACKGROUND / LEGISLATIVE HISTORY

The Annual Comprehensive Financial Report

The FY 2020-21 CAFR provides a description of the City's financial activities for the period of July 1, 2020 through June 30, 2021, and is divided into the following major sections:

- ***Introductory Section:*** This section intends to familiarize the reader with the organizational structure of the City, the scope of City services and the City general government operations. This section also highlights the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting award for the previous fiscal year;
- ***Financial Section:*** This section contains the City's audited financial statements, notes to the basic financial statements, the Independent Auditor's Report, and Management's Discussion and Analysis (MD&A); and
- ***Statistical Section:*** This section provides ten years of summary financial data, as well as demographic, economic, and statistical information related to the City and its operations.

The auditor's opinion contained in the Financial Section of the ACFR represents their unmodified opinion that the City's financials are presented fairly and in conformity with Generally Accepted Accounting Principles (GAAP).

The Management Letter or Auditor's Required Communication to City Council

The Management Letter is a required communication and recommendation by Statement on Auditing Standards (SAS) No. 114. The letter outlines the auditor's responsibility, planned scope, and timing of the audit, and provides advice on accounting policies, evaluates accounting estimates, proposes audit adjustments, and notes significant audit findings, the status of prior years' recommendations, corrected and uncorrected misstatements, disagreements with management, management representations, and any major difficulties encountered in performing the audit.

The Management Letter is intended solely for the information and use of the City Council, the Finance and Management Committee, Federal grantor agencies, and the management of the City.

ANALYSIS AND POLICY ALTERNATIVES

The FY 2020-21 ACFR provides a comprehensive review of the City's financial operations. The ACFR is submitted to the City Council for review and to provide relevant financial information to the residents of Oakland, creditors, investors, and other interested parties. This document includes an opinion from the City's external auditor that the City's financial statements for FY 2020-21 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an

"unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of the ACFR.

Financial Highlights

For the fiscal year ended June 30, 2021, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$96.3 million. This result compares to a negative net position of \$65.0 million at June 30, 2020 and reflects a \$161.3 million improvement in net position on a government-wide basis, as detailed in **Table 1**.

Of the \$161.3 million improvement in net position, \$109.6 million was derived from increases in general revenues, including \$49.9 million in property tax, \$22.9 million in other revenues, \$31.7 million in voter-approved special tax, and \$21.8 million in real estate transfer tax. Net position also improved by \$6.1 million due to the combined impact of changes in pensions and other post-employment benefits (OPEB).

Net OPEB liability increased by \$244.3 million primarily due to changes in assumptions about future interest earnings on assets held in trust for these obligations. These assumption changes resulted from City Council's action to temporarily suspend OPEB trust contributions in response to the financial crisis precipitated by the COVID-19 pandemic. The FY 2021-23 Adopted Policy Budget restores these contributions, which is expected to reduce net OPEB liability in the City's next actuarial valuation.

The City's net position of \$96.3 million incorporates a \$2.0 billion deficit in unrestricted net position that has primarily resulted from the historical underfunding of pension and OPEB liabilities. The net pension liability accounts for \$1.8 billion of this deficit and the net OPEB liability accounts for \$0.8 billion.

Capital assets such as buildings, land, and equipment, less any related outstanding debt, account for \$1.3 billion of the City's net position. These capital assets are used to provide services to residents and are not available for future spending.

Resources that are subject to restrictions on their use, such as bond proceeds or grant funds, contribute an additional \$779.7 million to net position and are available to meet the City's ongoing obligations for specific programs. Of this amount, \$328.3 million pertains to Low and Moderate Income Housing Redevelopment, \$368.1 million is restricted for Housing and Community Development programs, and \$24.2 million is restricted for debt service.

Total fund balance for the City's governmental funds decreased by 1.0 percent, or \$11.0 million, ending the year at \$1.1 billion. This decrease results primarily from the expenditure of bond proceeds received in prior years.

Total fund balance in the consolidated General Fund increased by 14.8%, or \$59.7 million, rising to \$464.0 million. This improvement is primarily due to the use of federal COVID funds to subsidize General Fund expenditures, which also positively impacted the City's General Purpose Fund Emergency Reserve. At June 30, 2021, the General Purpose Fund Emergency Reserve had a balance of \$52.7 million, exceeding the required level of 7.5% of FY 2020-21 General Purpose Fund appropriations, or \$48.3 million.

Table 1: Consolidated Statements of Net Position June 30, 2021 and 2020 (in thousands):

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets						
Current and other assets	\$2,136,443	\$1,945,415	\$91,994	\$82,302	\$2,228,437	\$2,027,717
Capital assets	1,440,601	1,423,245	255,239	255,190	1,695,840	1,678,435
Total Assets	<u>3,577,044</u>	<u>3,368,660</u>	<u>347,233</u>	<u>337,492</u>	<u>3,924,277</u>	<u>3,706,152</u>
Deferred outflows of resources						
Loss on refunding of debt	12,268	13,513	—	—	12,268	13,513
Related to pensions	339,194	317,386	908	2,045	340,102	319,431
Related to OPEB	221,051	40,797	4,527	556	225,578	41,353
Total Outflows	<u>572,513</u>	<u>371,696</u>	<u>5,435</u>	<u>2,601</u>	<u>577,948</u>	<u>374,297</u>
Liabilities						
Long-term liabilities	1,045,103	1,139,168	26,359	29,072	1,071,462	1,168,240
Other liabilities	467,428	318,401	3,117	5,647	470,545	324,048
Net pension liability	1,754,458	1,672,538	46,916	44,896	1,801,374	1,717,434
Net OPEB liability	827,123	588,107	15,713	10,462	842,836	598,569
Total Liabilities	<u>4,094,112</u>	<u>3,718,214</u>	<u>92,105</u>	<u>90,077</u>	<u>4,186,217</u>	<u>3,808,291</u>
Deferred inflows of resources						
Gain on refunding of debt	2,785	3,026	316	356	3,101	3,382
Related to pensions	2,854	38,163	—	1,283	2,854	39,446
Related to OPEB	210,886	290,396	2,876	3,952	213,762	294,348
Total deferred inflows	<u>216,525</u>	<u>331,585</u>	<u>3,192</u>	<u>5,591</u>	<u>219,717</u>	<u>337,176</u>
Net Position						
Net investment in capital assets	1,102,435	1,142,803	228,564	225,762	1,330,999	1,368,565
Restricted	779,672	704,387	—	—	779,672	704,387
Unrestricted (deficit)	(2,043,187)	(2,156,633)	28,807	18,663	(2,014,380)	(2,137,970)
Total net position	<u>\$ (161,080)</u>	<u>\$ (309,443)</u>	<u>\$257,371</u>	<u>\$244,425</u>	<u>\$96,291</u>	<u>\$(65,018)</u>

FISCAL IMPACT

This is an informational report only; there is no fiscal impact.

PUBLIC OUTREACH / INTEREST

This item did not require any additional public outreach other than the required posting on the City's website.

COORDINATION

This report was prepared in coordination and with input from the Finance Department and City Attorney's Office. It presents financial information for all City departments as well as the Port of Oakland.

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic opportunities associated with this informational report.

Environmental: There are no environmental opportunities associated with this informational report.

Race & Equity: There are no race or equity opportunities associated with this informational report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive The Annual Comprehensive Financial Report (ACFR) And The Auditor's Required Communication To City Council (Management Letter) For The Year Ended June 30, 2021.

For questions regarding this report, please contact Stephen Walsh, Controller, at (510) 238-4906.

Respectfully submitted,



ERIN ROSEMAN
Finance Director
Finance Department

Prepared by:
Stephen Walsh, Controller
Controller's Bureau

Attachments (2):

- A: Annual Comprehensive Financial Report For the Year Ended June 30, 2021
- B: Auditor's Required Communication to City Council (Management Letter)

ATTACHMENT A

Due to the size of the Annual Comprehensive Financial Report, please view on the City of Oakland website using the following link:

https://cao-94612.s3.amazonaws.com/documents/City-of-Oakland-Annual-Comprehensive-Financial-Report-FY2021_2022-01-11-000557_bnea.pdf

ATTACHMENT B

Auditor's Required Communication to City Council

CITY OF OAKLAND

Communications to City Council

For the Year Ended
June 30, 2021



Certified
Public
Accountants

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

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Honorable Mayor and Members of the City Council
City of Oakland, California

In planning and performing our audit of the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland (City) as of and for the year ended June 30, 2021, in accordance with 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, we considered the City'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. In addition, the Oakland Police and Fire Retirement System (PFRS), a pension trust fund, and the Port of Oakland (Port), a discretely presented component unit, are audited by us under separate engagements and separate letters of required communications are submitted to the PFRS' Board of Administration and the Port 'Board of Commissioners.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the City's internal control, described in items 2021-001, 2021-002 and 2021-003 in the accompanying Current Year Recommendations section, to be significant deficiencies. The identified significant deficiencies are not considered to be a material weakness.

We have also included another identified matter involving internal control that is presented for your consideration together with a status of the prior year recommendations in this report.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and *Uniform Guidance*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to the City in the As-Needed Professional Service Agreement between the City of Oakland and Macias Gini & O'Connell LLP dated May 12, 2020. Professional standards also require that we communicate to you the information related to our audit as discussed in the accompanying Required Communications section.

We would like to thank City management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The Required Communications section is intended solely for the information and use of the Mayor, City Council, City management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
December 20, 2021

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

REQUIRED COMMUNICATIONS

Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in the As-Needed Professional Service Agreement between the City of Oakland and Macias Gini & O'Connell LLP dated May 1, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding a significant control deficiency over financial reporting and other matters noted during our audit in the Current Year Recommendations section of this communication.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note I to the basic financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2021, except the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as described in Note I Section E to the financial statements.

During the year, the City also adopted GASB Statement No. 90, *Majority Equity Interests— an amendment of GASB Statements No. 14 and No. 61* and GASB Statement No. 98, *The Annual Comprehensive Financial Report*. There was no impact on the basic financial statements related to the implementation of these statements.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant

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Communications to City Council
For the Year Ended June 30, 2021

accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus, except for the presentation of the Port of Oakland (Port) as discussed below.

The City presents the Port in a unique manner as compared to other local governmental entities with port operations. All local government entities we sampled reflect their ports as departments of the organization rather than as a discretely presented component unit. Some of these ports have similar management structures with a Board of Commissioners appointed by the sponsoring city's mayor/city council to oversee the operations of the port. Management's representation to us was that the Port operates with a separate legal standing (i.e. using its own corporate powers) under the City Charter, which would allow for this presentation. In addition, the City Attorney's Office has represented that the Port operates very similar to a corporation with the Charter acting as its Articles of Incorporation and By-Laws. Ultimately, the City's presentation of the Port makes it less comparable to other cities that have port operations, and thus, is a unique presentation.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the City's financial statements are:

- *Fair value of investments.* The City's investments are generally carried at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement using observable market transactions or available market information. The fair value of the City's investments (including the Police and Fire Retirement System) is generally measured based on Level 1 inputs, which are quoted prices in active markets, or Level 2 inputs, which are inputs other than quoted prices in Level 1 that are observable for the asset, either directly or indirectly. To a lesser extent, the City has some investments measured based on Level 3 inputs, which are not observable.
- *Estimated unbilled sewer service revenue.* The estimates for unbilled sewer service revenue are based on an evaluation of the sewer service reports from the East Bay Municipal Utility District, cash flows, monthly billing cycles, and historical billings.
- *Estimated allowance for losses on accounts receivable.* The allowance for losses on accounts receivable represents aged receivables over 360 days.
- *Estimated allowance for losses on loans receivable.* The allowance for losses on loans receivable is based on the types of loans (e.g., forgivable, deferred, grant, or amortizing) and management's estimate regarding the likelihood of collectability based on loan provisions and collateral.
- *Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable properties.* The estimated useful lives of capital assets were determined based on the nature of the capital assets and management's estimate of the economic life of the assets. Depreciation is recorded on a straight-line basis over the estimated useful lives of the capital assets.
- *Accrual of compensated absences.* Accrual of vacation, sick leave, and compensatory time is based on unused employee sick leave, vacation, and other compensatory time, and employees pay rates at year-end.
- *Estimated claims liabilities.* Estimated claims liabilities were based on actuarial evaluations using historical loss, other data, and attorney judgment about the ultimate outcome of the claims.

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- *Estimated environmental costs.* Estimated environmental costs are based on valuation reports from the City's Public Works Department and external consultants.
- *Net pension liability, net other postemployment benefits (OPEB) liability, and deferred outflows and inflows of resources related to pension and OPEB.* The City is required to contribute to its pension and OPEB plans at an actuarially determined rate. The actuarial pension and OPEB data, including the liabilities, deferred outflows of resources, and deferred inflows of resources, are based on actuarial calculations performed in accordance with the parameters set forth for the pension plans under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and for the OPEB plan under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which incorporate actuarial methods and assumptions adopted by the City.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the disclosures related to investments, long-term obligations, litigation, pension and other postemployment benefits, and uncertainty. The disclosures about investments, long-term obligations, and pension and other postemployment benefits are described in Note II Section A, Note II Sections G and H, and Note III Sections A, and B, respectively, to the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Corrected and Uncorrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter,

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Communications to City Council
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which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain representations from management, which are included in the City's management representation letter dated December 20, 2021.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards:

Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis, the pension and other postemployment benefits schedules, and the budgetary comparison schedules for the General Fund and the Other Special Revenue Fund, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information and Other Sections

We were engaged to report on the combining financial statements and schedules, which accompany the basic financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

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We were not engaged to report on the introductory and statistical sections of the annual comprehensive financial report, which accompany the basic financial statements but are not RSI or supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Modification of the Auditor's Report

Our auditor's report includes an emphasis of a matter paragraph describing the City's adoption of GASB Statement No. 84. Our opinions are not modified with respect to this matter.

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Communications to City Council
For the Year Ended June 30, 2021

CURRENT YEAR RECOMMENDATIONS

**2021-001 Significant Deficiency in Internal Control Over Financial Reporting
General Liability Claims Estimates**

Criteria:

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters and is self-insured for its general liability claims in an amount of up to \$5.0 million per occurrence retention and \$25.0 million per occurrence coverage. The current portion of claims liability is accounted for in the General Fund on the basis of settlements reached or judgments entered within the current fiscal year and in the government-wide financial statements, the estimated liability for the current and non-current self-insurance claims is recorded as a liability.

Condition:

The actuary relies on the City's claims data and other information to estimate the City's self-insurance liability. As such, any inaccuracies in quantitative data or qualitative representations could have a significant effect on the actuarial results. During the year ended June 30, 2021, the City settled two significant claims and appropriately accounted for these transactions in the General Fund. However, the City also included these two claims in the data provided to the actuary to project the outstanding loss obligations, which resulted in a liability overstatement of \$32.8 million in the City's government-wide financial statements. The City subsequently corrected the error.

Cause and Effect or Potential Effect:

The City's Risk Management Department oversees the claims data and other information and is dependent on current claims development information from the City Attorney's office to provide to the actuary to use to project the outstanding loss obligations.

Recommendation:

We recommend the City Risk Management Department include the City Attorney's Office in the review and discussions of the information and assumptions used by the actuary in its analysis since changes in information and assumptions may result in significant changes in the development of the City's claims funding requirements, obligations and financial results.

Management's Response:

The City will adopt the recommendation from the auditor for consultation among the City Attorney's Office, Risk Management, and the Finance Department on claims estimates to be provided to the actuary responsible for estimating general claims liability. The goal of this process will be to ensure the correctness of information and assumptions utilized by the actuary in its estimates.

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For the Year Ended June 30, 2021

CURRENT YEAR RECOMMENDATIONS (Continued)

2021-002 **Significant Deficiency in Internal Control Information Technology Program**

Criteria:

Internal controls over financial reporting are reliant on effectively designed information technology (IT) controls. In that regard, an effectively designed IT control environment is one where an organization:

- (a) develops, documents, and disseminates to appropriate personnel, policies that address purpose, scope, roles and responsibilities, management commitment, coordination among organizational departments, and compliance; and procedures to facilitate the implementation of the policy and associated controls;
- (b) periodically reviews and updates the current policies and procedures; and
- (c) systematically monitors and tests its environment to ensure that policies and procedures are operating as designed.

An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures implement the entity-wide policy. Ongoing monitoring of control design, implementation, and operating effectiveness should also be applied so that the program includes continuous monitoring processes.

Critical within a well-established information security program are updated documented policies, procedures, and guidance; security roles and responsibilities identified and appropriately delineated across the organization; and ongoing evaluations to ensure that policies and controls intended to reduce risk are effective. Without these aspects, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. In addition, continuous monitoring of the City's systems is necessary to mitigate threats from cyberattacks, which have increasingly impacted other local governmental entities ability to issue payments, assist with client services, receive remittances, and perform basic governmental functions.

Condition:

We noted weaknesses within the City's information security program. Specifically, the City does not have updated policies and procedures along with continuous risk assessment and testing programs in place to actively mitigate threats to the City's IT infrastructure from ransom ware attacks, cyberattacks, and other unauthorized data breaches.

Cause and Effect or Potential Effect:

The City's staffing and resource constraints prevented the City from implementing information security policies, processes, and procedures. As such, the City is exposed to threats from ransomware attacks, cyberattacks, and other threats.

Recommendation:

The City should assign formal security responsibilities and continue working on developing updated policies and procedures related to security controls. In addition, the City should complete periodic IT assessments to improve identification and investigations of system risks.

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CURRENT YEAR RECOMMENDATIONS (Continued)

Management's Response:

The City concurs with this recommendation concerning the need to assign formal security responsibilities and develop updated policies and procedures related to security controls. As a first step, the City is in active recruitment of a Chief Information Security Officer (CISO). The CISO will establish, direct and coordinate the City's IT risk governance program and provide City-wide leadership in developing broad information security policy, standards and practices, addressing City-wide decisions on the balance of privacy and information security and guide the acquisition of advanced security technology. Additionally, the City is engaged in multiple efforts to strengthen defenses for its information technology program and will continue to implement tools and technologies in support of this goal.

2021-003 Significant Deficiency in Internal Control Over Financial Reporting Managing and Monitoring of Accounts, Grants and Other Receivables

Criteria:

Internal controls over financial reporting are reliant on effectively designed procedures, systems and processes for accounts, grants and other receivables in order to minimize the risk of fraud, error or loss. The purpose of accounts receivable internal controls is to ensure that exchange and non-exchange transaction invoices and remittances are properly recorded in the organization's accounting systems and that customers, grantors, and others pay promptly in accordance with the agreed terms of the transaction.

Condition:

The City's departments established separate systems and processes to track and account for its exchange (customer) and non-exchange (grant) billings and collections. During our audit, we noted the following:

- The Human Services Department received payment from the State of California dated December 17, 2020 in the amount of \$0.2 million, but did not deposit this payment into its bank account until August 24, 2021. In addition, the department did not timely prepare reimbursements for its grant eligible expenditures.
- The Planning and Building Department maintains a subsidiary system to record and monitor code enforcement fee assessments due to the City. We noted that the department performed reconciliations of code enforcement fees and surcharges and recognized \$0.7 million in revenues for prior year's transactions.
- The Housing and Community Department computes interest receivables on loans due from borrowers in a spreadsheet. During our analysis of loan interest, we noted that the City incorrectly computed the interest amount on one of the loans.

Cause and Effect or Potential Effect:

During the past year, the City experienced staffing disruptions with a remote workforce, retirements of program personnel, and difficulty hiring replacements coupled with systems and processes that have not fully transformed to work in a digital environment. As such, the City experienced delays in performing routine receivables control and monitoring activities including: timely recording point of sale system information into the City's general ledger; reviewing credit balances and aged account receivable reports; and reconciling subsidiary reports with control accounts in the general ledger. With these control deficiencies, the City is exposed to the risk of fraud and error and to inaccurate and incomplete accounting information not being detected in a timely manner.

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

CURRENT YEAR RECOMMENDATIONS (Continued)

Recommendation:

We recommend that the City develop policies and procedures to ensure all departments submit and report billings, collections and financial information, at a minimum, quarterly to ensure the information produced is accurate and complete. As a result, the City can be more confident in using the financial information as a basis to make operational and policy decisions.

Management's Response:

The City will adopt the recommendation from the auditor to develop policies and procedures to ensure all departments submit and report billings, collections and financial information, at a minimum, quarterly to ensure the information produced is accurate and complete.

**2021-004 Control Deficiency in Internal Control Over Financial Reporting
Non-Routine Property Transactions**

Criteria:

On occasion, the City receives nonreciprocal transfer of property and other capital assets. Accounting guidelines provide definitions and recognition of contributed property and other capital assets.

Condition:

Given the City does not expend funds to receive contributed assets, the routine process to capture these assets in its accounting systems is not designed for these non-cash transactions. During the year, the City's accounting system did not capture the following non-routine property transactions:

- The City is a participant with the County of Alameda in a joint exercise of powers agreement forming the Oakland-Alameda Coliseum Authority (Coliseum Authority). During the fiscal year, the County accepted the quitclaim deed from the Oakland Raiders, a California Limited Partnership, to the City and the County, of a fifty percent undivided interest each as tenants in common, for the Raider's Training Facility located in the City of Alameda.
- The Chabot Space & Science Center, Chabot Space & Science Center West, Chabot Space & Science Center Observatory Deck (Center), and all other structures and facilities permanently affixed to the real property associated with certain agreements between the City, Oakland Unified School District, Chabot Space & Science Center Joint Powers Agency, Chabot Space & Science Center Foundation, East Bay Regional Park District, and Eastbay Astronomical Society related to the Chabot Space & Science Center (Chabot) located at 10000 Skyline Boulevard.

Cause and Effect or Potential Effect:

As a result, the City did not record the fair value of its ownership interest in the Raider's Training Facility and the Chabot Center estimated to be \$18.0 million and \$4.9 million, respectively, in its financial statements at year-end. The City subsequently corrected the error in 2021.

Recommendation:

We recommend the City improve its communication with representatives in the Finance Department to ensure that information on non-routine activity is timely conveyed to the personnel responsible for accounting and reporting the City's capital asset activities.

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

CURRENT YEAR RECOMMENDATIONS (Continued)

Management's Response:

The City will adopt the recommendation from the auditor to improve communication within the Finance Department and operating departments to ensure that information on non-routine activity is timely conveyed to the staff responsible for accounting and reporting the City's capital asset activities.

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

STATUS OF PRIOR RECOMMENDATIONS

**2020-001 Significant Deficiency in Internal Controls Over Financial Reporting
Internal Control Over Financial Reporting and Reliability of Financial Statements**

Recommendation:

During the fiscal year 2020 audit, we recommended that the City complete its recruiting and onboarding of the significant unfilled positions in the Finance Department and improve its personnel retention programs. In addition, we recommended that the City continue to improve the documentation of its year-end closing journal entries related to its complex computations such as its pension and OPEB computations.

Status of Corrective Action:

Complete.

**2020-002 Other Control Deficiency
Information Technology: City-Wide Information Security Program**

Recommendation:

During the prior years' audits, we recommended the City evaluate its allocation of resources dedicated to cybersecurity threats and ensure resources are dedicated to update policies and procedures and to continuously perform periodic risk and vulnerability assessments, penetration testing, monitoring through scanning or agent-based software tools, or perform other cybersecurity activities in order to identify, track and resolve security threats.

Status of Corrective Action:

In process – see current year finding 2021-002.

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT ADJUSTMENTS
(Dollars in thousands)**

Number	Opinion Unit	Fund	Account	Debit	Credit
PJE#1	General Fund	1010	Notes and loans receivable: interest	\$ 147	
PJE#1	General Fund	1010	Deferred inflows of resources		\$ 147
PJE#1	Governmental Activities	GA	Notes and loans receivable: interest	147	
PJE#1	Governmental Activities	GA	Operating grants and contributions		147
<i>To correct miscalculation of interest receivable accrual.</i>					
	General Fund/				
PJE#2/3	Governmental Activities	1010/GA	Accounts Payable: General	10,941	
	General Fund/				
PJE#2/3	Governmental Activities	1010/GA	Cash Held by Treasury: City Pool		10,941
<i>To reclassify checks issued prior to year end from accounts payable to outstanding checks.</i>					
PJE#4	State and Federal Grants Fund	2103	Grant revenues	529	
PJE#4	State and Federal Grants Fund	2103	Deferred inflows of resources		529
PJE#4	State and Federal Grants Fund	2063	Grant revenues	357	
PJE#4	State and Federal Grants Fund	2063	Deferred inflows of resources		357
<i>To defer unavailable grant receivable amounts.</i>					
PJE#5	Governmental Activities	GA	General government - claims expense	1,305	
PJE#5	Governmental Activities	GA	Claims liability		1,305
<i>To adjust claims liability estimates to reflect updates provided by the City Attorney.</i>					
	State and Federal Grants Fund/				
PJE#6	Governmental Activities	2138/ GA	Cash held by Treasury City Pool	169	
	State and Federal Grants Fund/				
PJE#6	Governmental Activities	2138/ GA	Receivable: Grants Receivable		169
<i>To apply payment received from the State against the grant receivable balance.</i>					
	Other Special Revenue Fund/				
PJE#7	Governmental Activities	2415/ GA	Other revenues	716	
	Other Special Revenue Fund/				
PJE#7	Governmental Activities	2415/ GA	Fund balance		716
<i>To reduce the development fees revenues earned in the prior year but recognized in the current year.</i>					
PJE#8	State and Federal Grants Fund	2108	Receivable: Grants Receivable	235	
PJE#8	State and Federal Grants Fund	2108	Deferred inflows of resources		235
PJE#8	Governmental Activities	GA	Receivable: Grants Receivable	235	
PJE#8	Governmental Activities	GA	Grant revenues		235
<i>To accrue receivables funded by CDBG for reimbursable expenditures.</i>					
	State and Federal Grants Fund/				
PJE#9	Governmental Activities	2128/ GA	Receivable: Grants Receivable	4,785	
	State and Federal Grants Fund/				
PJE#9	Governmental Activities	2128/ GA	Grant revenues		4,785
<i>To accrue receivables funded by Head Start for reimbursable expenditures.</i>					
	State and Federal Grants Fund/				
PJE#10	Governmental Activities	2071/ GA	Grant revenues	968	
	State and Federal Grants Fund/				
PJE#10	Governmental Activities	2071/ GA	Unearned revenues		968
<i>To defer unearned CARES Act program revenues.</i>					
PJE#11	State and Federal Grants Fund	2108	Fund balance	1,297	
PJE#11	State and Federal Grants Fund	2108	Unearned revenues		596
PJE#11	State and Federal Grants Fund	2108	Grant revenues		701
<i>To adjust Continuum of Care amounts to program revenue and expenditure reconciliations.</i>					
PJE#12	Governmental Activities	GA	Restricted net position	18,687	
PJE#12	Governmental Activities	GA	Unrestricted net position		18,687
<i>To reclassify nonspendable fund balance amounts from restricted to governmental activities unrestricted net position.</i>					

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2021

SUMMARY OF CORRECTED FINANCIAL STATEMENT ADJUSTMENTS
(Dollars in thousands)

Number	Opinion Unit	Fund	Account	Debit	Credit
JE #1	Governmental Activities	GA	Claims liability	\$ 32,761	
JE #1	Governmental Activities	GA	General government expense		\$ 32,761
<i>To reduce the claims liability reported in the government-wide financial statements for significant cases settled during the fiscal year.</i>					
	General Fund/				
JE #2	Governmental Activities	1010/GA	Property held for resale	17,962	
	General Fund/				
JE #2	Governmental Activities	1010/GA	Other revenues		17,962
<i>To record the estimated fair value of the City's 50% interest in the former Raiders Training Facility as property held for resale.</i>					
JE #3	Governmental Activities	GA	Capital assets: facilities	4,876	
JE #3	Governmental Activities	GA	Other revenues		4,876
<i>To record the estimated fair value of the City's interest in the Chabot facilities.</i>					

