



EAST BAY MUNICIPAL UTILITY DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SINGLE AUDIT REPORT

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on YOU



EAST BAY MUNICIPAL UTILITY DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2023

EAST BAY MUNICIPAL UTILITY DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2023

Table of Contents

Page
Number

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2023	6
Notes to the Schedule of Expenditures of Federal Awards.....	7
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2023	8
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2022	11



INDEPENDENT AUDITORS' 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

To the Board of Directors
East Bay Municipal Utility District
Oakland, 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 each major fund, and the aggregate remaining fund information of East Bay Municipal Utility District (the "District"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.



To the Board of Directors
East Bay Municipal Utility District
Oakland, California

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The 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 the response.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lance, Solt & Loughard, LLP". The signature is written in a cursive, flowing style.

Sacramento, California
October 25, 2023



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
East Bay Municipal Utility District
Oakland, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the East Bay Municipal Utility District, California (the "District")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.



To the Board of Directors
East Bay Municipal Utility District
Oakland, California

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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



To the Board of Directors
East Bay Municipal Utility District
Oakland, California

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated March 20, 2024, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Lance, Solt & Loughard, LLP". The signature is written in a cursive, flowing style.

Sacramento, California
March 20, 2024 (Except for the Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance which is dated October 25, 2023)

**EAST BAY MUNICIPAL UTILITY DISTRICT
Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended June 30, 2023**

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal Assistance Listing Number</i>	<i>Unique Entity Identifier Number</i>	<i>Total Federal Expenditures</i>
Department of Homeland Security Programs:			
Passed through from the California Governor's Office of Emergency Services			
Hazard Mitigation Grant Program*	97.039	N6LBY2YUZ8C1	\$ 2,445,387
Disaster Grant - Public Assistance Program*	97.036	N6LBY2YUZ8C1	<u>876,337</u>
Total Department of Homeland Security Programs:			<u>3,321,724</u>
Department of the Interior:			
Direct program:			
WaterSMART (Sustain and Manage America's Resources for Tomorrow	15.507	N/A	84,442
			<u>84,442</u>
Total Other Programs			<u>3,406,166</u>
Total Expenditures of Federal Awards			<u>\$ 3,406,166</u>

* Major Program

¹ There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

² The amount provided to subrecipients during the year was \$0.

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

EAST BAY MUNICIPAL UTILITY DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

A. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the East Bay Municipal Utility District (the District), that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the District from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

B. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the full-accrual basis of accounting. Under the full-accrual basis of accounting, expenditures are recorded at the time liabilities are incurred. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**EAST BAY MUNICIPAL UTILITY DISTRICT
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2023**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? yes no

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant
97.036	Disaster Grant – Public Assistance

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number

2023-001

Evaluation of Finding

Material Weakness over Financial Reporting

Condition

The District improperly excluded construction payments from accounts payable and construction-in-progress amounting to \$18 million in total activity that occurred during the 2023 fiscal year, from the Water System and Wastewater funds.

Criteria

Per Generally Accepted Accounting Principles, an expense must be recognized as soon as a liability is incurred within the applicable accounting period, for services rendered or goods received. Additionally, activity related to construction-in-progress should be capitalized in the year an associated expense and liability are recognized.

Cause of Condition

During audit test work performed to ensure the completeness of accounts payable, we identified activity that was improperly excluded from accounts payable at June 30, 2023. Through discussions with the District, this was excluded in error, and was not identified during the yearend closing review process over accounts payable and capital asset activity.

Effect or Potential Effect of Condition

If uncorrected, this misstatement would have resulted in a material understatement of accounts payable and capital assets for construction-in-progress activity.

Recommendation

We recommend the District perform a thorough review of invoices that are received subsequent to yearend, including beyond the District's internal cutoff date, in conjunction with their year-end closing, to ensure that items are properly accrued and reflected in the correct fiscal year.

Client Response

The District will enhance its pre-audit review of invoices that are received subsequent to year-end closing to ensure that activity is properly accrued and reflected in the correct fiscal year. The District is also implementing other process improvements in accounts payable to increase efficiency and accuracy.

Reference Number

2023-002

Evaluation of Finding

Significant Deficiency over Inventory Valuation

Condition

The inventory balance reported within the inventory module does not reconcile to the inventory balance reported within the general ledger.

Criteria

Per Generally Accepted Accounting Principles, financial accounting and reporting should be consistent from one period to the next to ensure financial comparability between periods, which includes a current valuation of assets.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Cause of Condition

During audit test work of the reported inventory balance, we identified a variance between the inventory module and the general ledger detail. Through discussions with the District, this variance is a combination of data entry errors, timing differences and system integration issues.

Effect or Potential Effect of Condition

A variance between the inventory module, a sub-ledger of the general ledger, can result in an overstatement or understatement of the inventory balance, causing inaccurate representation of the inventory balance.

Recommendation

We recommend the District complete a detailed review of the physical inventory count reports and monitoring process. Additionally, we recommend a reconciliation between the physical inventory count reports, inventory module and the general ledger, at minimum twice a year, to ensure the accounting for inventory is accurate.

Client Response

The District will conduct a detailed analysis of all inventory transactions recorded in both the inventory subledger and general ledger through fiscal year 2024 to identify specific discrepancies. Additionally, the District will perform a physical inventory count to verify the actual quantities of items on hand. Based on the findings from the analysis and physical inventory count, the District will make necessary adjustments to both the inventory subledger and the general ledger to align the records.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Finding: 2022-001: Coronavirus State and Local Fiscal Recovery Fund Program

Appropriate corrective actions were taken; this finding is considered resolved and is not repeated in the fiscal year ended June 30, 2023.