

[REDACTED]

Management of the San Francisco Bay Area Restoration Authority  
c/o Brian Mayhew, Chief Financial Officer  
San Francisco Bay Area Restoration Authority  
375 Beale Street  
San Francisco, California 94105

Management of the San Francisco Bay Area Restoration Authority,

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the San Francisco Bay Restoration Authority ("SFBRA") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered SFBRA's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFBRA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SFBRA's internal control. Matters communicated in this letter are classified as follows.

- Deficiency – A control deficiency 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.
- Significant deficiency – A deficiency, or 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.
- Material weakness – A deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we are required to or wish to communicate to you.

This communication is intended solely for the information and use of the members of the governing body, management, and others within the organization, and governmental granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

SFBRA's written response to the deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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Cc: Therese McMillan, Executive Director

## Accounting for Fund Balance Classification

### **Classification:**

Deficiency

### **Applicable Entities:**

SFBRA

### **Observation:**

During our audit, we observed that the budget was not updated to reflect two authorized projects, San Pablo Baylands Collaborative Protection and Restoration Projects, Phase I (San Pablo Baylands Project) and North Richmond Shoreline Living Levee Project (North Richmond Shoreline Project), in the aggregate amount of \$3.6 million that were approved in May 2020. In addition, the budget for an existing project, the South San Francisco Bay Shoreline Project for Economic Impact Area 11 (South San Francisco Bay Shoreline Project), was understated by \$800,000.

### **Impact:**

As a result, when management prepared the fund balance classification, Schedule of Approved Projects and Project Budgetary Schedule, they did not have a complete population of all Board-approved projects, encumbrances and budgets as the starting point for their analyses.

Fund balance of governmental funds are reported in categories based on the nature of the limitations confining the use of resources for specific purposes. Fund Balance may be classified as Nonspendable, Restricted, Committed, Assigned or Unassigned. Committed Fund Balance represents encumbered amounts that can only be used by SFBRA for specific purposes through resolutions authorized by the Board of Directors. Assigned Fund Balance represents amounts that are for authorized projects that are not yet encumbered. Unassigned Fund Balance represents the residual classification and includes all amounts not contained in other classifications.

Because the budget was not updated to reflect the approved projects, management did not have complete information to properly classify fund balance. As a result, we proposed and management reflected an adjustment to reclass \$4.4 million from Unassigned Fund Balance to \$3.6 million in Assigned Fund Balance and \$800,000 in Committed Balance.

In addition, SFBRA prepares a Schedule of Approved Projects and Project Budgetary Schedule as supplementary schedules to the financial statements. We proposed and management reflected the San Pablo Baylands and North Richmond Shoreline Projects totaling approximately \$3.6 million in the Schedule of Approved Projects and corrected the classification within the Project Budgetary Schedule from project contingency to approved allocations to other agencies. Also, we proposed and management reflected the increase of \$800,000 in budget for the South San Francisco Bay Shoreline Project and likewise corrected the classification within the Project Budgetary Schedule from project contingency to approved allocations to other agencies.

### **Recommendation:**

We recommend that management strengthen their review process to ensure that the information included within the Schedule of Approved Projects and Project Budgetary Schedule is complete and accurate. Similarly, we recommend that management strengthen their internal controls to review for proper fund balance classification in accordance with generally accepted accounting principles.

### **Management Response:**

The management of the San Francisco Bay Restoration Authority (SFBRA) concurs with the finding and recommendation. Management has initiated additional review procedures to assure year end budget changes are properly recorded.