

From: Phil Koen

Sent: Friday, June 10, 2022 2:32 PM

To: Ron Dickel

Cc: Kyle Park; Rob Rennie <RRennie@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>; Shelley Neis <sneis@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Jak Van Nada; Rick Van Hoesen

Subject: Re: Agenda Item #4

EXTERNAL SENDER

Well We are politely requesting it to be discussed because the material weakness with regard to the financial statements was absolutely not discussed on May 7. We would like to know the specifics of this finding. Also the letter is very confusing.

And we respectfully want to know when the first letter was received by the Staff. Was it in the past month or was it around the time the letter was dated ie December 31, 2021.

This last point is important because if it was received after April 25, 2022 then the auditors did not disclose this material weakness at the time the audit verbal communications took place. This is a big issue. Surely you understand the significance of this issue. It needs to be day lighted.

It would be good to have Badawi on the call to discuss. This is our request.

Thank you.
Sent from my iPhone

On Jun 10, 2022, at 1:59 PM, Ron Dickel wrote:

Phil

The below letter was discussed at the Finance Commission meeting on May 9.

Thank you.

Ron

On Jun 10, 2022, at 11:45 AM, Phil Koen wrote:

Dear Finance Commission,

Agenda item #4 is to discuss the Federal Single Audit Corrective Action Plan.

However, in reviewing the material, the LGCA respectively points out that the Town **received two letters from Badawi and Associates** regarding material weakness and significant deficiencies in internal controls. The first letter, which is attached, is dated December 31, 2021 and addresses the audit of the financial statements of the governmental activities, each major fund and the budgetary comparison for the General Fund of the Town of Los Gatos. The letter states that Badawi identified certain deficiencies in internal control that they considered to be material weaknesses and significant deficiencies. A material weakness is a deficiency 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. This is why we are drawing the Finance Commission's attention to the first letter.

To the best of our knowledge, this letter was not presented to the Finance Commission at the time the Finance Commission reviewed the Town's financial statements. Furthermore, we do not believe the Finance Commission has ever discussed this letter. If Staff just received this letter, then there needs to be a discussion with Badawi regarding the importance of timely disclosure of such issues to the Finance Commission.

For sake of clarity, the second letter was dated April 25, 2022 and addresses compliance requirements for each major federal program as described in the OMB Compliance Supplement. During Badawi's review of internal controls over compliance with these types of requirements, they identified "certain deficiencies in internal control over compliance.....that we consider to be a material weakness".

The agenda item #4 is to address this second letter. However, even more important is the Finance Commission's attention to the first letter, which directly impacts the Town's financial statements.

Thank you.

Phil Koen
Los Gatos Community Alliance



**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 Town Council
of the Town of Los Gatos
Los Gatos, 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, the aggregate remaining fund information, and the budgetary comparison for the General Fund of the Town of Los Gatos, California (Town), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 31, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify 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. 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.

To the Honorable Mayor and Members of the Town Council
of the Town of Los Gatos
Los Gatos, California
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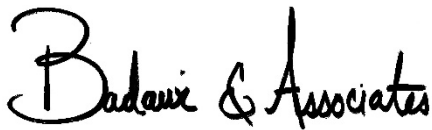
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

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 31, 2021