

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2019**

This Page Left Intentionally Blank

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**For the Year Ended June 30, 2019**

**Table of Contents**

	<b><u>Page</u></b>
<i>Memorandum on Internal Control</i> .....	1
Schedule of Material Weaknesses .....	3
Schedule of Significant Deficiencies .....	5
Schedule of Other Matters .....	9
Status of Prior Year Significant Deficiencies .....	23
Status of Prior Year Other Matters .....	37

This Page Left Intentionally Blank

## MEMORANDUM ON INTERNAL CONTROL

To the City Council of  
the City of Manteca, California

In planning and performing our audit of the basic financial statements of the City of Manteca for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses.

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 deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, 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 'Maze & Associates' in a cursive script.

Pleasant Hill, California  
January 7, 2021

**Accountancy Corporation**  
3478 Buskirk Avenue, Suite 215  
Pleasant Hill, CA 94523

T 925.930.0902  
F 925.930.0135  
E maze@mazeassociates.com  
W [mazeassociates.com](http://mazeassociates.com)

This Page Left Intentionally Blank

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**  
**SCHEDULE OF MATERIAL WEAKNESSES**

**2019-001      Timely and Accurate Year-End Close**

The year-end financial closing and preparation of the general ledger data should be completed timely and accurately. In addition, well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for analysis of account balances and activities.

Due to the staff turnover during the year, there is a significant strain on the City's ability to maintain a good internal control environment and to produce accurate and timely financial data. As a result, the year-end audit was adversely affected. During the audit, we discovered and/or City staff proposed fifty-four post-closing journal entries, including a number of material post-closing adjustment entries. City staff had difficulty completing material closing entries prior to providing the general ledger for audit for areas including recording the fiscal year 2018 closing entries related to the total OPEB liability and related deferred outflows/inflows of resources and claims payable and the fiscal year 2019 closing entries for debt service transactions, interfund activities, fair value of the swap derivative, accounts receivable, capital assets, contracts payable, pension liabilities and related deferred outflows/inflows of resources and OPEB liabilities and related deferred outflows/inflows of resources. In addition, the components of fund balance in the General Fund had not been adjusted to reflect the revised fund balance policy adopted during the fiscal year. These areas affected the year-end closing process and most of the City's funds.

The above condition delayed the completion of the year-end closing process, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased in response to these increased risks.

The City should analyze staff resources to determine what plans can or should be made to ensure that the financial data is processed properly and timely during staffing transitions. In addition, the City must develop procedures to ensure that accounts are analyzed throughout the fiscal year and after the year end close to ensure that additional closing entries are not required prior to providing the general ledger for audit.

***Management's Response:***

Management agree with the auditors concerns on the timeliness of the year-end close. We plan to establish close policies, procedures, and files to ensure that the City closes the year timely and accurately in the future and leaves a record for future staff. In addition, accounting positions within the department have been added to increase bandwidth and allow the department to maintain the close process on a monthly basis.

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**  
**SCHEDULE OF MATERIAL WEAKNESSES**

**2019-002      Accounting for Development Agreement Activities**

Development agreements often contain financial provisions that need to be reflected in the City's general ledger or disclosed in the City's financial statements.

The City entered into a Disposition and Development Agreement (DDA) with a Developer to construct a destination resort (Project), as well as a Development Agreement (DA), in April 2018 that included a number of provisions related to the sale of property to the developer and the deferred payment of various City development fees. The trigger point for recording the associated balances and activity for the DA was the sale of the property to the developer.

During the audit, we noted that the land sale had occurred in August 2018, but the general ledger did not contain any of the associated transactions, such as the retirement of the land sold to the developer and the related loan receivable for the sale (\$675,000), and the deferred fees receivable from the developer (\$10.7 million).

We understand that due to the complexity of the development agreement and turnover in the Finance Department and other City departments, accounting for the transactions in the development agreement were not assigned to any applicable City staff, and City staff did not determine the appropriate accounting for the transaction until December 2020.

If the City enters into agreements with third parties that include financial provisions that go unnoticed, it could result in a misstatement of the financial statements or an omission of a significant City commitment from the notes to the financial statements.

The City must develop procedures to ensure that all third party agreements are reviewed for financial impacts, so the proper accounting treatment can be applied, and any necessary financial statement disclosures are included.

***Management's Response:***

Management agree and will develop procedures to ensure all contracts and agreements are recorded timely and accurately. The addition of accounting positions will enable the department to maintain the process once developed.



**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2019-003      Prior Year Recommendations Not Yet Implemented**

During the current year audit, we followed up on the status of Significant Deficiencies identified on the Status of Prior Year Significant Deficiencies. We found that the following deficiencies had either been partially or not mitigated at June 30, 2019. Therefore, they are deemed to be current year Significant Deficiencies. Details of these deficiencies and associated management's responses are listed in the Status of Prior Year Significant Deficiencies.

- 2017-002        Golf Enterprise Fund Working Capital
- 2015-002        Timely Review and Approval of Journal Entries
- 2015-003(b)iii    Investment Reporting and Compliance
- 2015-004        Timely Filing of Continuing Disclosure Reports
- 2012-02(a)       Internal Controls – Segregation of Duties - Super-User Status in the General Ledger System

***Management's Response:***

See Management's Response to Current Year Status for each of the above deficiencies as listed in the Status of Prior Year Significant Deficiencies.

**2019-004      Finance Personnel Super-User Rights**

As noted in prior year comment 2012-02, good internal controls are based a segregation of duties, and no one finance employee should have access to an asset and the controlling documentation that supports that asset. Ideally, one employee should retain authorization to use an asset and another employee should maintain the records over that asset. Super-user rights give an individual the potential to obtain both of these functions. Due to the reasons mentioned above, Finance staff should not normally be allowed to have super-user rights in the City's general ledger system.

We noted that three City employees (the Finance Director, the Accounting Manager, and the Deputy Director of Finance) continue to have super-user rights to the New World general ledger. When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other user's abilities to access the different modules in the accounting system (i.e., unauthorized adjustments could be made to the general ledger). In addition, unauthorized transactions could be processed without proper review and approval.

While we understand the City has a limited number of staff available to provide system administration functions, the City should consider restricting super user rights to as few employees as possible. Until that is possible, the City should implement mitigating controls such as a review and approval of changes made to the system by the above employees.

***Management's Response:***

We agree that the security of super users should be reviewed more thoroughly and that a procedure should be established for system changes. These issues will be addressed as we undertake a review of internal controls during FY2020-21.

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**  
**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2019-005      Accounting for Sales of Components of Capital Assets**

Proceeds from the sales of capital assets should normally be recorded in the fund that owns title to the asset and/or funded the purchase of the asset.

During fiscal year 2019, the City sold a conservation easement to another government agency for \$1 million and recorded the proceeds in the City's General Fund. However, the property was owned by the Sewer Enterprise Fund and had been purchased with bond proceeds.

Although we understand Finance staff initially questioned whether the proceeds from the sale of the easement could be recorded in the General Fund when the land was owned by the Sewer Enterprise Fund, the proceeds remained in the General Fund in the general ledger provided for audit.

Subsequent to the fiscal year end, City staff continued to research the matter and determined that the land should instead be purchased by the General Fund at the original cost of the property and it would then retain the easement sales proceeds, which was retroactively approved by the City Council in December 2020.

In the future, City staff should determine which fund owns any capital assets that are going to be sold, prior to the execution of a sale agreement, even if the sale involves only an easement or other component of the capital asset, to ensure that all sales proceeds are recorded in the correct fund. In addition, the City should ensure the Sewer Fund returns the sales proceeds from the General Fund to the bond proceeds account to be used on future bond-funded projects.

***Management's Response:***

Management agree and will facilitate analysis of property transactions prior to execution in the future.

**2019-006      Timely Posting of Budget Amendments to the General Ledger**

Budget amendments that are approved by the City Council or other applicable City staff during the fiscal year should be recorded in the general ledger in a timely manner.

We selected two budget amendment posting entries to test for proper review and approval and noted that although the entries were reviewed and approved, the entries were recorded in the general ledger long after the City Council approval dates as noted below:

- One entry in the amount of \$387,500 was approved by the City Council in November 2018, but not recorded in the general ledger until January 2019.
- One entry in the amount of \$175,760 that was to record three different budget amendments approved by City Council in July 2018, August 2018 and October 2018 was not recorded in the general ledger until April 2019.

We understand the delays in posting amendments to the general ledger was due to past staffing challenges in the Finance Department.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2019-006      Timely Posting of Budget Amendments to the General Ledger (Continued)**

If budget amendments approved by the City Council are not recorded in the general ledger in a timely manner, it could result in misstatements in interim financial reports, or could even impact the expenditure authorization for goods or services disbursements.

Finance staff should develop procedures to ensure that all budget amendments approved by the City Council or other applicable City personnel are recorded in the general ledger in a timely manner.

***Management's Response:***

Management agree that recording budget amendments timely is imperative. We currently record budget amendments within two weeks after adoption, and within two days of receipt internally. The budget policy will be updated to reflect this procedure.

**2019-007      Determine Disposition of Lease Proceeds**

Proceeds from the issuance of debt should be used for the project or other purchase in a timely manner, usually within one to two years, depending on the purpose of the issuance.

The City issued a lease in 2015 for the purchase of equipment and debt service on the lease began in June 2016. However, as of June 30, 2019, the City had not spent all of the proceeds from the lease and the escrow account balance was \$562,263 as of that date.

We understand that the use of these funds for equipment purchases was expected to be considered as part of the funding plan during the preparation of the fiscal year 2020 budget.

If proceeds from the issuance of debt are not spent in a timely manner, the City may continue to make debt service payments on cash that is in the escrow account.

The City should determine if qualifying equipment purchases were made subsequent to the issuance of the lease that could be reimbursed from the escrow account, or determine whether the funds will be used for equipment purchases in the near future. If such purchases are not identified, the City should determine if the balance in the escrow account should instead be used to retire the outstanding lease payable balance, which was \$160,253 as of June 30, 2019.

***Management's Response:***

We will review the escrow balance and take appropriate action.

This Page Left Intentionally Blank

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**2019-008      Treasurer's Report Investment Categorization**

The Treasurer's Report should accurately identify each investment based on the information provided by the applicable account statement.

During our review of the March 2019 Summary of Cash and Investments in the Treasurer's Report, we noted that Asset Backed Securities were incorrectly classified as Collateralized Mortgage Obligations.

Investments that are not properly classified in the monthly Treasurer's Report lead to inaccurate reporting.

City staff must develop procedures to ensure the Summary of Cash and Investments in the Treasurer's Report accurately identifies each investment based on the information provided by the account statement.

***Management's Response:***

We agree with the Auditors concerns. The City began formal quarterly Investment Reporting to the Council and the public in November 2020 for the period ending September 2020. The report format includes each of the City's holdings and is generated by the City's investment management firm, leaving no room for error or misinterpretation by City staff. We will be drafting a Reporting Policy and including Investment Reporting as a quarterly requirement in the policy.

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you informed of developments:

**EFFECTIVE FISCAL YEAR 2019/20:**

***GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance***

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The effective dates for the GASB pronouncements that follow below have been updated for the effects of GASB Statement No. 95.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**EFFECTIVE FISCAL YEAR 2020/21:**

***GASB 84 – Fiduciary Activities***

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

***GASB 90 - Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61***

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 90 - Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)**  
**(Continued)**

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

**EFFECTIVE FISCAL YEAR 2021/22:**

**GASB 87 – Leases**

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this Statement.



**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 89 – Accounting for Interest Cost Incurred before the End of a Construction Period**

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

**GASB 92 – Omnibus 2020**

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

***GASB 93 – Replacement of Interbank Offered Rates***

Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, Leases, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 97 – Certain Component Unit Criteria, and Accounting for and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans**

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 97 – Certain Component Unit Criteria, and Accounting for and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (Continued)**

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

***How the Changes in this Statement will Improve Financial Reporting***

The requirements of this Statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. The requirements also will enhance the relevance, consistency, and comparability of (1) the information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all 457 plans.

**EFFECTIVE FISCAL YEAR 2022/23:**

**GASB 91 – Conduit Debt Obligations**

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved:
  - (1) an issuer
  - (2) a third-party obligor, and
  - (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 91 – Conduit Debt Obligations (Continued)**

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

***GASB 91 – Conduit Debt Obligations (Continued)***

***How the Changes in this Statement will Improve Financial Reporting***

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

***GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements***

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

***PPPs*** - This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The PPP term is defined as the period during which an operator has a noncancellable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***  
**(Continued)**

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term.

This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term.

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. If a PPP involves multiple underlying assets, a transferor and an operator in certain cases should account for each underlying PPP asset as a separate PPP. To allocate the contract price to different components, a transferor and an operator should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining the best estimate is not practicable, multiple components in a PPP should be accounted for as a single PPP.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

**GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements**  
**(Continued)**

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

**APAs** - An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

**GASB 96 – Subscription-Based Information Technology Arrangements**

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).



**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

***GASB 96 – Subscription-Based Information Technology Arrangements (Continued)***

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, —which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government’s incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government’s ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF OTHER MATTERS**

***GASB 96 – Subscription-Based Information Technology Arrangements (Continued)***

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

***How the Changes in this Statement will Improve Financial Reporting***

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2018-001      Prior Year Recommendations Not Yet Implemented**

During the current year audit, we followed up on the status of Significant Deficiencies identified on the Status of Prior Year Significant Deficiencies. We found that the following deficiencies had either been partially or not mitigated at June 30, 2018. Therefore, they are deemed to be current year Significant Deficiencies. Details of these deficiencies and associated management's responses are listed in the Status of Prior Year Significant Deficiencies.

- 2017-002 Golf Enterprise Fund Working Capital
- 2015-002 Timely Review and Approval of Journal Entries
- 2015-003 Investment Reporting and Compliance
- 2015-004 Timely Filing of Continuing Disclosure Reports
- 2014-002 Timely Preparation and Approval of Bank Reconciliation
- 2012-02 Internal Controls – Segregation of Duties

***Management's Response:***

See 2019-001.

**2017-002      Golf Enterprise Fund Working Capital**

The Government Finance Officers Association (GFOA) recommends that local governments adopt a target amount of working capital which indicates the level of funding needed to meet the obligations of the fund. Working capital is defined as the difference between current assets and current liabilities of the fund. In addition, the City's policy for enterprise funds is that the target for working capital is that a baseline of 90 days of working capital or 25% of operating expenses is maintained.

As of June 30, 2017, the Golf Enterprise Fund had working capital that could only cover 19 days or 3% of the Fund's operating expenses. In addition, the fund has incurred an operating loss for the past two fiscal years.

The City is not in compliance with the terms of its working capital policy.

The Golf Fund revenue as well as the annual play has declined over the past 10 years combined with the increase in expenditures for capital improvements necessary to keep the course in operating condition.

The City should develop a plan to analyze the operations of the Golf Enterprise Fund and develop a plan to fund the operations in a manner that would bring the fund into compliance with the City's working capital policy.

***Update for June 30, 2018 Audit:***

As of June 30, 2018, the Golf Enterprise Fund had working capital that could only cover 23 days or 6% of the Fund's operating expenses.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2017-002      Golf Enterprise Fund Working Capital (Continued)**

*Update for June 30, 2019 Audit:* For the year ended June 30, 2019, the Golf Enterprise Fund incurred an operating loss of \$152,029 and as of June 30, 2019, the Golf Enterprise Fund had working capital that could only cover 20 days or 5.5% of the Fund's operating expenses.

***Current Status:***

Management are aware of the Golf Course working capital and subsidy condition. We will continue to evaluate potential revenue enhancements and cost savings measures as we prepare the FY 2021-22 Budget.

**2015-002      Timely Review and Approval of Journal Entries**

This comment is an update of matters repeated in prior years as discussed in Significant Deficiency 2014-003, which is not repeated in this report since it is substantially redundant with our comments below.

Journal entries should be prepared and reviewed in a timely manner for the period in which the entry is to be posted, in order to keep accounts up to date with the current information. In addition, to have a complete audit trail of the journal entry process, the dates of preparation and review should be documented for all journal entries.

We selected forty journal entries for testing of controls over the journal entry process and supporting documentation and noted thirteen of the journal entries were reviewed more than a month after the periods the entries were intended to adjust. The journal entries were reviewed from two to nine months after the date of preparation or the period in which they were being posted.

Two of the 40 journal entries tested did not have evidence of the date prepared and the date reviewed, which is typically indicated by date stamps used by the Finance Department. One of the two journal entries without a date stamp did have a date printed on the bottom of the page that reflected when the journal voucher may have been prepared, however, no date of review was noted.

During our testing of investments, we also noted December 2014 and March 2015 journal entries to record investments and interest, indicate they were prepared on April 23, 2015 and reviewed and posted on April 22, 2015 which is prior to when the Treasurer's Reports themselves were prepared and reviewed.

Finally, we also noted that 5 of the 40 journal entries tested included the date stamp in accordance with City policy, but the date on the review stamp was prior to the date the document was prepared.

Without the timely preparation, review and approval of journal entries, there is an increased risk of unauthorized entries or an error going undetected, and interim financial reporting may be inaccurate.

We understand the delay in the review process was due to the shortage of staff in the Finance Department, and the date stamp differences were due to staff oversight.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-002      Timely Review and Approval of Journal Entries (Continued)**

The City should develop procedures to ensure that all journal entries are prepared, reviewed, approved and posted to the general ledger in a timely manner (within 30-45 days of the date of activity). And, the date stamps should be included in that review process to ensure the process is accurately documented.

***Update for June 30, 2016 Audit:***

We selected forty journal entries for testing of controls over the journal entry process and supporting documentation. We noted eleven of the entries were reviewed from two to six months after the date of preparation or the period to which they were being posted.

One of the forty journal entries tested did not have evidence of the date prepared, which is typically indicated by date stamps used by the Finance Department.

***Update for June 30, 2017 Audit:***

We selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted four of the forty entries were reviewed and posted more than 45 days after the date they were prepared.

Additionally, it was noted that three of the forty journal entries tested were posted to the general ledger more than 2 to 5 months after the transactions occurred.

***Update for June 30, 2018 Audit:***

We again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted that the journal entries were prepared, reviewed, approved and posted to the general ledger in a timely manner. However, we noted two journal entries that had review dates stamped on them that were prior to the preparation date of the entries.

***Update for June 30, 2019 Audit:***

During this year's audit, we again selected 40 journal entries for testing of controls over the journal entry process and supporting documentation. We noted that the thirty-nine of the journal entries were prepared, reviewed, approved and posted to the general ledger in a timely manner. However, we noted one of the journal entries was prepared and posted to the general ledger in a timely manner, but the review indication included what appears to be the reviewers date stamp, but not the sign-off of approval by the reviewer.

***Current Status:***

The City has procedures in place for all journal entries to be reviewed before they are posted to the general ledger, and these entries are initialed by the reviewer. As we undertake a further review of internal controls during FY2020-21, we anticipate additional analysis of journal entry procedures.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-003      Investment Reporting and Compliance**

During our review of timely preparation of the Treasurer's Reports and compliance with the requirements of the City's Investment Policy, we noted the following:

***a. Timely Preparation and Approval of Treasurer's Reports***

This comment is an update of matters repeated in prior years as discussed in Other Matters 2014-007 and 2012-07, which are not repeated in this report since they are substantially redundant with our comments below.

To be an effective control, Treasurer's Reports and the associated review should be completed in their entirety as soon as reasonably possible after each month or quarter-end, typically within thirty to forty-five days of the bank statement month end. In addition, Section XX, Reporting, of the City's Investment Policy requires that the City Treasurer review and make available the monthly investment reports to the City Manager and City Council.

We reviewed the City's December 31, 2014 and March 31, 2015 Treasurer's Reports and noted that they were not prepared until May 31 and June 1, respectively, and there was no indication of the date when they were reviewed. We reviewed the City's Treasurer's Report and Successor Agency Treasurer's Report for the month of June 2015, and noted that both of the Treasurer's Reports were reviewed and approved on September 15, 2015.

With such delays, any errors, misstatements and/or unauthorized activities may not be identified or corrected in a timely manner.

We understand the delay in preparing the Treasurer's Reports was due to the Finance Department being short staffed from July 2014 through March 2015 and that an employee was hired in March 2015 to help alleviate the workload.

The City should implement procedures to ensure the timely preparation of the monthly Treasurer's Reports and ensure that preparation and review are documented in a formal manner, including the date of which each takes place.

***b. Treasurer's Report Accuracy and Compliance with Government Code***

During our review of the January 2015 Treasurer's Report, we noted the following issues:

***i. Correct Identification of Investments***

The Treasurer's Report and Investment Reconciliation should accurately identify each investment based on information provided by the trustee/fiscal agent statement.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-003      Investment Reporting and Compliance (Continued)**

During our review of the January 2015 Summary of Account Activity in the Treasurer's Report, we noted CAMP investments were properly classified, however on the Fund Summaries page of the Treasurer's Report, they were reported as Certificates of Deposit.

We also noted the City's Certificates of Deposit, which were correctly identified in the Summary of Account Activity page of the Treasurer's Report, were classified as Commercial Paper in the Investment Schedule page of the Treasurer's Report. And, the total Certificates of Deposit reported on the Investment Schedule did not agree to the total on the Union Bank Statement as of January 31, 2015.

In addition, this error in reporting the CAMP investments as Certificates of Deposits caused the actual balance of Certificates of Deposit of \$25 million to be excluded from the Fund Summaries page of the Treasurer's Report.

City staff indicated that when they were preparing the Treasurer's Report, they forgot to update the categories.

Each page of the Treasurer's Report should be reviewed in detail each month and reconciled to both the investment statements and the general ledger to ensure accurate reporting.

**ii.      *Fiscal Agent Investment Reporting***

Treasurer's Reports should be updated monthly, or they should denote the date of the information reported if it does not correspond with the statements as of the reporting date.

In our review of the January 2015 fiscal agent statements, we noted that there were variances between the January 2015 Treasurer's Report and the fiscal agent statements. The Treasurer's Report did not indicate that the reported balances were accurate as of another date other than the January 2015 statements.

We understand the City only updates the activity for the fiscal agent investments on a semi-annual basis in the Treasurer's Report, but the Report does not include such an indication.

As a result, the City is incorrectly reporting investments in the Treasurer's Report on a month to month basis – they are only accurate semi-annually.

City staff should include the actual month-end balances of the fiscal agent statements in the Treasurer's Report, or include an indication that the information is updated only semi-annually. Another option would be to exclude the fiscal agent account balances from the Treasurer's Report, since the Investment Policy excludes funds subject to bond indentures.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-003      Investment Reporting and Compliance (Continued)**

*iii.      Compliance with Government Code Section 53607 Reporting Requirements*

The Reporting Section of the City's Investment Policy indicates that the monthly investment reports are to be *made available* to the City Council. However, the Resolution adopting the annual Investment Policy and the Budget Policy delegate the authority to invest the funds of the City under California Government Code Section 53607, which *requires* monthly reporting of transactions to the legislative body.

We understand the monthly reports are not submitted to City Council and the Treasurer's Reports are only submitted when they are requested by City Councilmembers.

The City should determine whether the current reporting requirement in the Investment and Budget Policies is sufficient under the Government Code, or if the Investment and Budget Policies and reporting method should be revised to conform to the Code requirements.

*iv.      Compliance with Government Code Section 53646 – Updating Reference to Investment Policy*

Government Code Section 53646 requires that the Treasurer's Report state compliance of the portfolio to the statement of investment policy, or the manner in which the portfolio is not in compliance.

We reviewed the December 2014, January 2015 and March 2015 Treasurer's Reports and noted that the statement of certification of compliance to the City's Investment Policy references the Investment Policy adopted by City Council dated September 18, 2006, when the City's most recent Investment Policy is dated August 6, 2013.

Staff indicated that during the preparation of the Treasurer's Report, staff copied over the incorrect date of the adoption of the Investment Policy.

The date in the certification should be updated or it could even be removed.

City staff should review and compare the Treasurer's Report to all investment/trustee statements in detail each month and not just update the balances, to ensure information is being presented correctly. City staff should also ensure that investments are classified correctly by investment type and amount. Finally, the City should determine whether the current reporting requirement in the Investment Policy is sufficient under the Government Code, or if the Investment Policy and reporting method should be revised to conform to the Code requirements.



**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-003      Investment Reporting and Compliance (Continued)**

*Update for June 30, 2018 Audit:*

***a. Timely Preparation and Approval of Treasurer's Reports***

We again reviewed the Treasurer's Reports for timely preparation and proper approval and noted the following:

- The October 31, 2017 Treasurer's Report was prepared and reviewed on April 17, 2018 almost six months after the end of the period.
- The November 30, 2017 Treasurer's Report was prepared and reviewed on April 20, 2018 almost five months after end of the period.
- The February 28, 2018 Treasurer's Report was prepared and reviewed on May 15, 2018 almost three months after the end of the period.

***b. Treasurer's Report Accuracy and Compliance with Government Code***

***i. Correct Identification of Investments***

Implemented

***ii. Fiscal Agent Investment Reporting***

Implemented

***iii. Compliance with Government Code Section 53607 Reporting Requirements***

Not implemented. The City did not submit monthly investment reports to the City Council in fiscal year 2017-2018.

***iv. Compliance with Government Code Section 53646 – Updating Reference to Investment Policy***

Implemented

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-003      Investment Reporting and Compliance (Continued)**

*Update for June 30, 2019 Audit:*

*a. Timely Preparation and Approval of Treasurer's Reports*

Implemented.

*b. Treasurer's Report Accuracy and Compliance with Government Code*

*iii. Compliance with Government Code Section 53607 Reporting Requirements*

Not implemented. The City did not submit monthly investment reports to the City Council in fiscal year 2017-2018.

*Current Year Status:*

The City began formal quarterly investment reporting to the Council and the public in November 2020 for the period ending September 2020. We will be drafting a Reporting Policy and including investment reporting as a quarterly requirement in the policy.

**2015-004      Timely Filing of Continuing Disclosure Reports**

The covenants of the City's 2012 Water Refunding Bonds and 2012 Sewer Refunding Bonds require them to prepare an Annual Report no later than seven months after the end of the City's fiscal year. The Report should be filed with the Municipal Securities Rule-making Board (MSRB) by either the City or the bond trustee.

During our review of the filing of continuing disclosure, we noted that as of October 21, 2015, the City had not filed any Annual Reports to date for the 2012 Water Refunding Bonds or the 2012 Sewer Refunding Bonds.

The City is not in compliance with the annual reporting requirements of the Bond covenants.

Although the City does make annual filings for other bond issues, we understand the failure to report was due to City staff not being aware of the disclosure requirements for these debt issues.

The City should ensure that the delinquent Annual Reports are filed with MSRB and future Reports are filed timely. If the Trustee is responsible for the filing, the City should make sure that the filing is completed by the deadline.

*Update for June 30, 2018 Audit:*

During our review of the filing of continuing disclosure reports, we noted that the City did not file the annual reports for the fiscal year ended June 30, 2017 until May 2, 2018 for the 2012 Water Refunding Bonds and the 2012 Sewer Refunding Bonds.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2015-004      Timely Filing of Continuing Disclosure Reports (Continued)**

***Update for June 30, 2019 Audit:***

During our review of the filing of continuing disclosure reports due on December 31, 2018 for the year ended June 30, 2018, we noted that the City did not file the June 30, 2018 annual reports for the 2012 Water Refunding Bonds and the 2012 Sewer Refunding Bonds until July 26, 2019.

***Current Status:***

The City has contracted out all continuing disclosure reporting. We anticipate this to be a reoccurring issue until such time that the Financial Statements are filed timely and the required information is available for disclosure, estimated to be June of 2021.

**2014-002      Timely Preparation and Approval of Bank Reconciliations**

Bank reconciliations are one of the most important internal controls a city can have, and the bank reconciliation cannot be considered complete until it has been reviewed and approved. To be an effective control, bank reconciliations and the associated review should be completed in their entirety as soon as reasonably possible after each month-end, usually within thirty to forty-five days of bank statement month end.

We reviewed the City's December 2013 bank reconciliations and noted they were not completed until late February 2014 as follows: Payroll Account - February 27, Section 125 (Aflac) Account - February 24, Police Account - February 24 and Workers Compensation Account - February 20. We were unable to determine the completion or review date of the General Account, as there was no date noted, however it appears to have been mid-February due to the print date on the paper backup.

We reviewed the City's January 2014 bank reconciliations for the same accounts and it is also unclear as to when they were completed as the preparer and reviewer sign-offs are not dated, however it appears they were completed in mid-March due to the print dates on the paper backup.

Finally, we noted that the April 2014 bank reconciliations for the accounts were not completed as of June 10, 2014. With such a delay, any errors, misstatements and/or unauthorized activities may not be identified in a timely manner or corrected accordingly.

We understand the delay in preparing the bank reconciliations was due to the implementation of the utility billing module of the New World System on January 1, 2014 impacting all Finance staff. In addition, we understand there was a turnover in staff during the month of February 2014 and the transition period impacted the timely preparation of the bank reconciliations.

The City should implement procedures to ensure the timely preparation of the bank reconciliations and ensure that preparation dates and signatures are visible on the reconciliations.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2014-002      Timely Preparation and Approval of Bank Reconciliations (Continued)**

**Update at June 30, 2015:** We reviewed the City's December 2014 bank reconciliations for the following accounts and noted there was no indication of the date they were prepared, and they were not reviewed until March 2015 as follows: Section 125 (Aflac) Account – March 21, Police Account – March 13 and Workers Compensation Account – March 21. The December 2014 General Account and Payroll Account reconciliations were not prepared or reviewed until May 6 and April 16, respectively.

We also reviewed the City's January 2015 bank reconciliations for the following accounts and noted there was no indication of the date they were prepared, and they were not reviewed until March 2015 as follows: Section 125 (Aflac) Account – March 21, Police Account – March 21 and Workers Compensation Account – March 31. The January 2015 General Account and Payroll Account were not prepared or reviewed until May 12 and May 6, respectively. And, during our review of the General Checking account June 2015 reconciliation, we noted it was not prepared and reviewed until September 10, 2015 and September 15, 2015, respectively.

We understand the delay in preparing the bank reconciliations was due to the Finance Department being short staffed from July 2014 through March 2015 and that an employee was hired in March 2015 and is in training to assume the bank reconciliation duties.

**Update for June 30, 2016 Audit:**

In June 2016, we reviewed the City's December 2015 bank reconciliations and noted they were not prepared and reviewed until late February or early March 2016 as follows: General Checking Account - February 29, Section 125 (Aflac) Account – March 1 and Workers Compensation Account - February 29.

We understand the delay in preparing the bank reconciliations was due to the turnover of staff and new employees being trained to complete the process which impacted the timely preparation and review of the bank reconciliations.

In October 2016, we reviewed the City's June 2016 bank reconciliations for the same accounts. We found that the reconciliation for the General Checking account was prepared and reviewed on a timely basis. As for the Section 125 and Worker's Compensation Accounts bank reconciliations, they were prepared timely and reviewed by October 2016. However, we could not determine when the preparation or review took place as the preparers and reviewers did not indicate such on the reconciliations.

**Update for June 30, 2017 Audit:**

We again selected bank reconciliations for testing for timely preparation and proper approval and noted following:

- The City's November 2016 bank reconciliation for the General Checking Account was not prepared until March 7, 2017 and were not reviewed until March 15, 2017. Additionally, the Payroll Section 125 Reimbursement Account was signed off as prepared and reviewed, although there is no indication of the date it was prepared and reviewed.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2014-002      Timely Preparation and Approval of Bank Reconciliations (Continued)**

- The City's March 2017 bank reconciliations for the General Checking, Payroll Checking, Section 125 Payroll Reimbursement Account, and Workers Compensation Account were not prepared and reviewed until June 2, 2017 and June 5, 2017, respectively.
- During our testing of the City's June 2017 bank reconciliations, it was noted that the City's reconciliation of the general checking account was not prepared and reviewed until October 1, 2017. Additionally, it was noted that there was no indication of who prepared or reviewed the June 2017 Successor Agency bank reconciliation, or the date that it was prepared or reviewed.

**Update for June 30, 2018 Audit:**

We again selected bank reconciliations for testing for timely preparation and proper approval and noted following:

The City's December 2017 bank reconciliations for the General Checking, Payroll Checking, Successor Agency Check, and Workers' Compensation Checking Accounts were not prepared or reviewed until March 5, 2018. Additionally, the Payroll Section 125 Reimbursement Account December 2017 bank reconciliation was not prepared and reviewed until March 9, 2018.

Furthermore, the City's February 2018 bank reconciliation for the General Checking Account was not prepared and reviewed until May 14 and 15, 2018, respectively.

According to City staff, the reason for the delay was due to staff changes in the Finance Department during the current year.

**Update for June 30, 2019 Audit:**

We again selected four months for testing of timely preparation and review and noted the bank reconciliations for August 2018, November 2018, March 2019 and June 2019 were prepared and reviewed within thirty to forty-five days of bank statement month end.

***Current Status:***

Implemented during fiscal year 2019, however due to the Finance Department going through multiple years of staff turnover, delays in the preparation of the bank reconciliations occurred subsequent to year end. Key accounting positions are currently vacant, but once filled we anticipate this issue will be resolved.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2012-02      Internal Controls – Segregation of Duties**

This comment is an update of matters repeated in prior years as discussed in Significant Deficiency 2010-03, which is not repeated in this report, since it is substantially redundant with our comments below.

During our review of the City's internal controls for proper segregation of duties and procedures, we noted areas in which controls need to be improved and employee's access and/or duties revised. Good internal controls require that employees with access to the City's assets not have access to the City's accounting records for the same assets.

*a. Super-User Status in the General Ledger System*

Accounting staff should not normally be allowed to have Super-User rights in the City's general ledger system. We noted that three City employees (the Finance Director, the Accounting Manager, and the Deputy Director of Finance) have super-user rights to the HTE Sunguard System. When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other user's abilities to access the different modules in the accounting system (i.e. unauthorized adjustments could be made to the general ledger). In addition, unauthorized transactions could be processed without proper review and approval. While we understand the City has a limited number of staff available to provide system administration functions, the City should consider restricting super user rights to as few employees as possible. Until that is possible, the City should implement mitigating controls such as a review and approval of changes made to the system by the above employees.

*b. Reviewing Changes to Vendor Database*

The Accounts Payable Senior Accounting Technician processes accounts payable, mails the checks, and has access to the vendor database. Although the check registers are reviewed, there is no review of the vendor database for additions or modifications. An employee other than the Senior Accounting Technician should review the vendor database periodically and approve all additions and modifications.

*c. Reviewing Changes to Employee Database*

The Payroll Clerk processes payroll, and although she cannot add new employees to the employee database, she can modify data within the database. Although the payroll registers are reviewed, there is no review of the employee database for modifications. An employee other than the Payroll Clerk should review the employee database periodically and ensure all modifications have been approved.

**Update for 2013, 2014 and 2015 Audits** –We again noted the lack of segregation of duties associated with super users and reviewing changes to the vendor and employee databases.

With such access to the databases, there is a risk of unapproved changes being made to the vendor or employee databases. Ideally, the access to the various databases should be removed from the employees involved with processing the above transactions. In the event that is not possible, another appropriate employee should review the applicable databases periodically to ensure all additions, deletions and modifications have been approved.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2012-02      Internal Controls – Segregation of Duties (Continued)**

We understand the New World System accounting software does not currently have the capability of producing reports of changes made to the various databases. Again, if the access to the databases cannot be removed from the employees noted, when these database changes reports are available, they should be generated during the review process for each applicable area and reviewed in detail to ensure all modifications were accurate and approved.

***Update for June 30, 2018 Audit:***

***a. Super-User Status in the General Ledger System***

Not implemented. We noted that same three City staff positions still have super-user rights to the New World System.

***b. Reviewing Changes to Vendor Database***

Implemented.

***c. Reviewing Changes to Employee Database***

Although the payroll registers are now reviewed, if changes to the employee database are completed without backup being provided, the change may go unnoticed. The City should develop a process to ensure that the Accounting Manager is alerted to any changes that are made to the employee database.

***Update for June 30, 2019 Audit:***

***a. Super-User Status in the General Ledger System***

Not implemented. We noted that same three City staff positions still have super-user rights to the New World System.

***b. Reviewing Changes to Vendor Database***

Implemented.

***c. Reviewing Changes to Employee Database***

Implemented.

***Current Status:***

- a.** See 2019-004
- b.** Implemented.
- c.** Implemented

This Page Left Intentionally Blank



**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**2016-003      Information Technology Best Practices Recommendations**

We conducted an Information Systems Review with our audit which encompassed the City's financial information system and the network environment that houses it. Our work goes beyond simply looking at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever increasing sophistication of hackers and criminals.

Currently, there are no Information Technology standards to which local governments are required to conform. Indeed, there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff have reviewed these informal guidelines and concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) are the most appropriate for local government<sup>1</sup>. NIST and FISMA represent the minimum security requirements for federal government agencies information systems. NIST recommends these for state and local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

While the results of our work did not indicate material weaknesses, we noted a few areas which could be improved. A summary of these recommendations which we believe are "best practices" are as follows:

***Payment Card Industry Compliance***

The City is not in compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Any organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance requirements results in higher transaction fees and liability if a security breach is found. Because the City accepts credit cards as a form of payment, the City must be compliant with the applicable controls.

---

<sup>1</sup> "State, local, and tribal governments, as well as private sector organizations are encouraged to consider using these guidelines, as appropriate." NIST SP 800-37 Rev 1 pg 11

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**2016-003      Information Technology Best Practices Recommendations (Continued)**

*Update for June 30, 2017, 2018 and 2019 Audits:*

We again conducted an Information Systems Review and noted that City is still not in compliance with the Payment Card Industry Data Security Standard.

*Current Status:*

The City is working toward the goal of PCI compliance and understands the importance of compliance. A non-compliant server that was hosting one of our applications has been replaced. We will continue to evaluate any shortcomings in technology and work processes to achieve this goal.

**2015-008      Compliance with Health and Safety Code Reporting Requirements for the Housing Successor**

This comment is an update of matters repeated in prior years as discussed in Other Matter 2014-008, which is not repeated in this report, since it is substantially redundant with our comments below.

Senate Bill No. 341 (SB341) was approved on October 13, 2013 and amended and added to the Health and Safety Code (HSC) effective January 1, 2014 to change provisions relating to the functions performed by a Housing Successor. Part of SB341 added HSC Section 34176.1 that imposes annual reporting requirements related to the housing assets of the former Redevelopment Agency held by the Housing Successor.

The City serves as Housing Successor for the housing activities of the former Manteca Redevelopment Agency and the activities of the Housing Successor are reported in the Low and Moderate-Income Housing Assets Special Revenue Fund.

Under the reporting requirements, the Housing Successor is required to include eleven points of information for the previous fiscal year in the City's annual report of the General Plan Administration due each April 1 (Government Code Section 65400) and post the same eleven points of information on the City's website. In addition, certain information included in Section 34176.1(a)(3) is to be included in the report every five years.

The reporting information began with fiscal year 2014 reporting that was due to the Department of Housing and Community Development (HCD) and to be posted to the City's website by April 1, 2015. However, the City did not prepare the required report for submission to HCD or posting to the City's website.

The City, as Housing Successor, should file the fiscal year 2014 report as soon as possible and develop procedures to ensure ongoing compliance with the annual reporting requirements of HSC Section 34176.1

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**2015-008      Compliance with Health and Safety Code Reporting Requirements for the Housing Successor (Continued)**

***Update for June 30, 2016, 2017 and 2018 Audits:***

During the audits, we followed up on the status of the above condition. We noted that the deficiency had not been mitigated.

The City serves as Housing Successor for the housing activities of the former Manteca Redevelopment Agency and the activities of the Housing Successor are reported in the Low and Moderate-Income Housing Assets Special Revenue Fund.

***Update for June 30, 2019 Audit:***

We noted that the City filed the required report for the year ended June 20, 2018 in April 2019, but we understand the other delinquent reports were not filed. The City should work with HCD to determine if the delinquent reports are required to be prepared and filed.

***Current Status:***

City staff will make an inquiry to HCD to determine if the prior year reports need to be prepared and filed.

This Page Left Intentionally Blank