

**CITY OF MANTECA**  
**MEMORANDUM ON INTERNAL CONTROL**  
**AND**  
**REQUIRED COMMUNICATIONS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2017**

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CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2017

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## 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, 2017, 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 and 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 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 did not identify any deficiencies in internal control that we consider 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 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". The signature is written in a cursive, flowing style.

Pleasant Hill, California  
March 26, 2018

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**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

**2017-001      Supporting Documents for Solid Waste Rate**

Rates charged to customers should be supported by the City's Master Fee Schedule approved by the City Council.

During our audit, we selected forty utility cash receipts for testing of the City's internal controls surrounding its cash receipts cycle. In the testing, we recalculated fees charged using the Master Fee Schedules, available online on the City's website or provided by the City. One selected receipt contained a solid waste rate that had no supporting documentation as to how the rate was calculated.

The City could be inaccurately charging the customer for that service.

According to City staff, the rate used has not changed since 2007 and the City could not locate supporting documentation for the rate.

The City should ensure that all utility fees are displayed in the Master Fee Schedules.

***Management's Response:***

Stonegate is an apartment complex that shares multiple dumpsters. The fee for each dumpster is divided by the number of units to get a cost per unit. The previous rate study was completed in 2007. Staff is unable to locate the number and size of the dumpsters on site used in the original calculation. A new rate became effective in February 2017. These rates are available online on the City's website and staff will ensure rates are updated per the fee schedule.

**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 and non-current assets and 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.

**CITY OF MANTECA  
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**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

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

***Management's Response:***

The City continues to look at the Golf Fund operations and what can be done to bring it in compliance with the working capital policy. In March of 2017 the City contracted for an operations review of the course with an outside consultant. In August of 2017 the City contracted with a new Golf Pro. In December 2017 the City approved an increase to green fees to help address the current issues in the Golf Fund.

**2017-003      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, 2017. 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.

- 2015-002 Timely Review and Approval of Journal Entries (repeat of 2014-003 Timely Review 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 (repeat of 2010-03 Internal Controls – Segregation of Duties)

***Management's Response:***

The City is in the process of hiring and training new staff to ensure timely preparation and posting of journal entries, bank reconciliations and investment reporting. The City is also contracting with a consultant to ensure disclosure reports are filed by the deadline.



**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 effect in the next two years. We have cited them here to keep you abreast of developments:

**Effective in fiscal year 2017-18:**

***GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

***GASB 81 – Irrevocable Split-Interest Agreements***

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

***GASB 85 – Omnibus 2017***

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

***GASB 86 – Certain Debt Extinguishment Issues***

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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**SCHEDULE OF OTHER MATTERS**

**Effective in fiscal year 2018-19:**

**GASB 83 - Certain Asset Retirement Obligations**

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

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**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2016-001      Purchasing Policy Compliance**

The Purchasing Policy should reflect the current practices of the City.

During the current year audit, we selected twenty-eight disbursements for testing of controls over purchasing procedures and compliance with the City's policies. We noted the following:

- a) The City's Purchasing Policy states that all expenditures, except for capital improvements over \$5,000, require a Purchase Order. Five of the disbursements tested did not have the required Purchase Order.
- b) Section III D of the City's Purchasing Policy requires a formal bid and a contract if the estimated dollar amount of the purchase, including tax, shipping and other related costs, exceeds \$25,000. We noted one disbursement over the \$25,000 threshold that did not have a contract associated with it.

As a result, the City is out of compliance with its Purchasing Policy. We understand that the City is in the process of updating the Purchasing Policy, which was last updated in 1997. The City should revise and update its Purchasing Policy to reflect the current practices or comply with the one that is currently in place.

***Current Status:***

Implemented.

**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.

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

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.

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.

***Current Status:***

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 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.

***Management's Response to Current Year Status:***

The City is in the process of hiring and training new staff to address this issue.

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**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 work load.

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.

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.

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**STATUS OF PRIOR YEAR  
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**2015-003      Investment Reporting and Compliance (Continued)**

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.

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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  
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**STATUS OF PRIOR YEAR  
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**2015-003      Investment Reporting and Compliance (Continued)**

***Current Status:***

***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 November 30, 2016 Treasurer's Report was prepared on December 28, 2016; however, it was not reviewed until June 5, 2017.
- The March 31, 2017 Treasurer's Report was prepared on June 5, 2017.
- The June 30, 2017 Treasurer's Report was prepared on October 1, 2017. In addition, this report was prepared and reviewed by the same individual.

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

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

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

During our review of the March 2017 Treasurer's Report, we noted the following:

- Three of the maturity dates for the Collateralized Mortgage Obligations were incorrectly stated.
- Three investments had a coupon rate of interest that were incorrectly stated.

City staff indicated that when they were preparing the Treasurer's Report, they mistakenly did not update some of the information.

***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 2016-2017.



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**STATUS OF PRIOR YEAR  
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**2015-003      Investment Reporting and Compliance (Continued)**

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

Implemented

***Management's Response to Current Year Status:***

The City is in the process of hiring and training new staff to address these issues.

**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.

***Current Status:***

During our review of the filing of continuing disclosure, we noted that the City has not filed the annual reports for the 2012 Water Refunding Bonds or 2012 Sewer Refunding Bonds for the fiscal year ended June 30, 2017.

***Management's Response to Current Year Status:***

The City has contracted with a consultant to ensure that the delinquent and future annual reports are filed by the required deadline.

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**STATUS OF PRIOR YEAR  
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**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.

**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.

**CITY OF MANTECA  
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**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

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

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.

***Current Status:***

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.
- 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.

***Management's Response to Current Year Status:***

The City is in the process of hiring and training new staff to address this issue.

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**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.

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**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.

***Current Status:***

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

Not implemented. We noted that same three City employees 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.

***Management's Response to Current Year Status:***

**a.** There is currently no way to mitigate this issue with New World Systems. User and Super User rights are being carefully evaluated to establish appropriate internal control procedures.

**b.** Implemented.

**c.** Staff continues to work with New World Systems to complete the audit report for payroll. New World has released this report, but it has not been able to consistently provide critical data. New World is aware of the issues and is working on a fix for the City.

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**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.

***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.

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<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**

**2016-004      Government Building Facilities Fee Settlement Agreement**

In fiscal year 2011 the City entered into a Government Building Facilities Fee settlement agreement with a developer. As part of the agreement, the City was to provide credits to the developer for creating parks when developments were built.

In fiscal year 2016, it was discovered that no credits had been issued to the developer since the agreement became effective in fiscal year 2011 due to staff oversight. As a result, in fiscal year 2016, the City made payments of \$1.7 million to recognize credits that should have been issued to the developer between January 2011 and May 2016. In addition, since the agreement did not specifically require that parks created by the developer had to be public parks, the developer received credits for private parks built during that period.

Going forward, the City should carefully review all legal agreements to ensure that the terms are accurate. In addition, the City should ensure that they are aware of the implication of all included requirements.

***Current Status:***

Implemented.



**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**

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

***Current Status:***

During the current year audit, we followed up on the status of the above condition. We noted that the deficiency has 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.

***Management's Response to Current Year Status:***

City staff will be, issuing a Request for Proposals to solicit professional services to assist with requirements as set forth in HSC 34176.1.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**2014-004      Sewer Enterprise Fund Restricted Cash and Investments**

The Sewer Enterprise Fund has unexpended bond proceeds of \$18.7 million as of June 30, 2014 from the 2009 Sewer Revenue Bonds, and the balance has not significantly changed for at least the last two fiscal years. We understand City staff anticipates that the project funds can be drawn down for prior project costs incurred, but that determination has not yet been completed. The City should complete the review as soon as possible.

***Current Status:***

Implemented.

## REQUIRED COMMUNICATIONS

To the City Council of  
the City of Manteca, California

We have audited the basic financial statements of the City of Manteca as of and for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance.

### Significant Audit Findings

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

**GASB Statement 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**

**GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**

**GASB Statement No. 80 – Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14**

**GASB Statement No. 77 – Tax Abatement Disclosures**

#### *Unusual Transactions, Controversial or Emerging Areas*

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

## *Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the City's financial statements were:

*Estimated Fair Value of Investments:* As of June 30, 2017, the City held approximately \$288.5 million of cash and investments as measured by fair value as disclosed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.

*Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 7 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Fair Value of Swaps:* The Successor Agency to the Redevelopment Agency has one Swap arrangement with a negative fair value in favor of the counterparty totaling \$10.3 million, as disclosed in Note 16D to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. The fair value is not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.

*Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1G to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Claims Liabilities:* Management's estimate of the claims liabilities payable is disclosed in Note 13 to the financial statements and is based on the prior year claims experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 10 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Net OPEB Obligation:* Management's estimate of the net OPEB obligation is disclosed in Note 11 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all/certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated March 26, 2018.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Information Accompanying the Financial Statements**

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

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

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

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This information is intended solely for the use of City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

*Maze & Associates*

Pleasant Hill, California  
March 26, 2018