

CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2016

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**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2016

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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, 2016, 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.

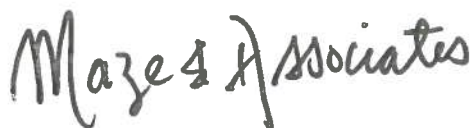
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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 dark ink that reads 'Maze & Associates' in a cursive, stylized font.

Pleasant Hill, California
February 23, 2017

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CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF 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.

Management's Response:

The City's Purchasing Policy was updated and adopted by Council on July 5, 2016.

2016-002 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, 2016. 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)

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**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF 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 government¹. 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.

Management's Response:

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.

¹ "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**

SCHEDULE OF 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 required 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.

Management's Response:

In March 2016, the City transitioned to a new agenda management system. The work flow requires all agenda items, including all agreements, be reviewed and approved by the Finance Director before being presented to Council for final approval.

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 abreast of developments:

Effective in fiscal year 2016-17:

GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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 77 – *Tax Abatement Disclosures*

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

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

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

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.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-001 Capital Assets System Conversion Error

The City's policy is to depreciate capital assets using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

When performing a reasonableness test of depreciation expense for fiscal year 2015, we noted that the expense for storm drain, streets and parks did not appear reasonable. City staff investigated the issue and found that the capital asset system had miscalculated depreciation expense for certain capital assets.

The City implemented the capital assets module of its general ledger system in fiscal year 2015 and when the assets were input into the new system, the acquisition date for certain assets did not convert accurately. As a result, the capital assets system fully depreciated those assets as of June 30, 2015, overstating accumulated depreciation by \$2.6 million.

When converting capital asset data from one system to another, the new system data should be reviewed in detail for accuracy. And, as part of the year-end closing process, City staff should review the system generated depreciation expense for reasonableness and accuracy to ensure errors do not recur.

Current Status:

During the current year audit, we followed up on the status of this deficiency.

During fiscal year 2016, the system again miscalculated the depreciation expense for storm drain, streets and parks, however the issue was identified and corrected by City staff prior to the start of the audit.

Management's Response to Current Year Status:

Implemented.

2015-002 Timely Review and Approval of Journal Entries

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.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

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

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.

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 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.

Management's Response to Current Year Status:

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

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

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.

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.

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MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES

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

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.

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.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2015-003 Investment Reporting and Compliance (Continued)

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.

Current Status:

a. Timely Preparation and Approval of Treasurer's Reports

We reviewed the City's December 31, 2015 and June 30, 2016 Treasurer's Reports and noted that they were not prepared or reviewed until March 31, 2016 and September 20, 2016, respectively.

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.

CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES

2015-003 Investment Reporting and Compliance (Continued)

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

i. Correct Identification of Investments

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

- One of the Certificates of Deposit included an incorrect maturity date and coupon rate of interest.
- The market value of one of the City's Corporate Notes was understated by \$1,000,000.
- The total investments market value on the report did not foot.

In both the December 2015 and June 2016 Treasurer's Reports we noted that the Local Agency Investment Fund (LAIF) and California Asset Management Program (CAMP) investments were both listed as money market funds on the Treasurer's Report even though they were both investment pools.

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

ii. Fiscal Agent Investment Reporting

Implemented

iii. Compliance with Government Code Section 53607 Reporting Requirements

Not Implemented

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.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

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 as of June 22, 2016, the City had not yet filed any Annual Reports for the 2012 Water Refunding Bonds or the 2012 Sewer Refunding Bonds.

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.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

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
MEMORANDUM ON INTERNAL CONTROL**

**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:

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.

Management's Response to Current Year Status:

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

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2014-003 Timely Review of Journal Entries

Journal entries should be prepared and reviewed in a timely manner for the period in which the entry is to be posted to, in order to keep accounts up to date with the current information.

We selected forty journal entries for control testing over the journal entry process, and noted twenty-eight 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 five months after the date of preparation or the period for which they were being posted.

Without timely review 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 journal entry posting 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 review of the journal entries.

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.

Current Status:

See Significant Deficiency 2015-002

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

2012-02 Internal Controls – Segregation of Duties

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.

Current Status:

a. Super-User Status in the General Ledger System

Not implemented.

b. Reviewing Changes to Vendor Database

We understand that in May 2016, New World System provided a new audit report for the vendor database and the City is now using this report to complete the review of changes made.

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. The City has implemented an approval process for adding vendors to the database. The Senior Accounting Technician can no longer add a vendor without the approval of the Accounting Manager.
- 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.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**

2010-03 Internal Controls – Segregation of Duties

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 can 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.

c. 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 (see discussion above), 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.

d. 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 (see discussion above), 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.

Current Status:

See Significant Deficiency 2012-02.

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**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2015-005 Review of Accounts Payable Registers – Ensuring Date Stamp is Accurate

The review of accounts payable registers should be clearly documented in a formal manner, which includes the date of the review. The City's policy is to indicate the review is complete via the use of a date stamp. If a date stamp is used, the stamp should be updated to the date the review took place prior to it being stamped on the document, leaving an audit trail of when the review took place.

We reviewed the "Payment Batch Listing" for the period ending 11/13/14 and noted that the review stamp date was 11/10/14, which is prior to the period end date of the report.

Without the accurate review date stamp, the actual date of the review cannot be confirmed.

We understand the issue was caused by staff oversight.

When City staff reviews the accounts payable registers, they should determine that the date on the stamp has been updated to the correct date of the review prior to stamping the document.

Current Status:

Implemented.

2015-006 Police Trust Bank Account – Stale Dated Checks

It is the City's policy to follow up every six months on checks that have been outstanding for over a year. If a resolution cannot be found, the City will void the check and funds are returned to the applicable fund.

We selected the Police Trust Bank Reconciliation for the month of January 2015 for testing and noted that there were four outstanding checks totaling \$3,965 that dated back to May 2013 through November 2013.

We understand this account was used by the Police Department for asset seizures and the City writes a check to the County for all the money received from asset seizures. Although City staff have been in contact with the County, it has not yet been determined if the checks need to be voided or reissued.

City staff should follow up on outstanding checks that have been outstanding for more than one year and determine how they should be addressed in accordance with City policy. Or, in the event this account should not be subject to that policy, the policy should be revised to reflect current practices.

Current Status:

Implemented.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2015-007 Determine Disposition of Agency Fund Balance

The City's Agency fund accounted for funds received from the City of Lathrop for their share of the Wastewater Quality Control Facility Phase III expansion project. However, the cash balance in the fund of \$5,351 has remained unchanged for the last five years.

The City should determine the disposition of the remaining funds and close the Fund.

Current Status:

Implemented.

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

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 this deficiency. 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.

**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)

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.

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.

Update for 2015 Audit: The unexpended bond proceeds were nearly unchanged with a balance of \$18.6 million as of June 30, 2015.

Current Status:

The Sewer Enterprise Fund has unexpended bond proceeds of \$16.4 million as of June 30, 2016 from the 2009 Sewer Revenue Bonds, and the balance has not significantly changed for at least the last three 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.

Management's Response to Current Year Status:

Staff will be processing requests for reimbursement for bond eligible expenditures and identifying future bond eligible projects in FY 2017.

2014-007 Treasurer's Report – Frequency of Reporting

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 delegates 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. 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 with the Code requirements.

Current Status:

See Significant Deficiency 2015-003

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2014-008 Health and Safety Code Expenditure Limitations and Reporting Requirements for the Housing Successor

Senate Bill No. 341 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.

The amendments to HSC Section 34176 are minor and primarily include defining the “entity that assumed the housing functions of a former redevelopment agency” as the Housing Successor.

HSC Section 34176.1 is new and imposes spending limitations and 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.

The City, as Housing Successor, should develop procedures to ensure ongoing compliance with the provisions of HSC Section 34176.1, including the expenditure limitations and annual reporting requirements.

Current Status:

See Other Matter 2015-008.

**CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
OTHER MATTERS**

2012-05 Adoption of the Appropriations Limit

Government Code Section 7910 requires the City to “by resolution, establish its appropriations limit and make other necessary determinations for the following fiscal year pursuant to Article XIII B of the California Constitution at a regularly scheduled meeting or noticed special meeting.” This means the City is to adopt the next year’s Limit prior to July 1 of each fiscal year.

As of June 2012, the City had not adopted the Appropriations Limit for the fiscal year ended June 30, 2012, and it was not adopted until October 2012. While we understand the adoption of the Limit was overlooked due to the delay in adopting the 2012 budget, the City is not in compliance with the requirements of the California Constitution. In the future, the annual Limit should be calculated and adopted prior to the start of each fiscal year.

Update for 2013 Audit – The City did not adopt the fiscal year 2013 Appropriations Limit until October 2012.

Update for 2014 Audit – The City did not adopt the fiscal year 2014 Appropriations Limit until August 6, 2013.

Update for 2015 Audit - The City did not adopt the fiscal year 2015 Appropriations Limit until July 15, 2014. Although a significant improvement from fiscal years 2012, 2013 and 2014, the City is not in compliance with the requirements of the California Constitution.

Current Status:

Implemented.

2012-07 Timely Preparation of Treasurer’s Reports

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. As of September 2012, the June 2012 Treasurer’s Report had not been made available to the City Council, and the City had not prepared the July or August 2012 Treasurer’s Reports. The City should implement policies to ensure the Treasurer’s Report is completed in a timely manner, which typically is within 30 days of the close of a given month, and made available to the City Manager and City Council.

Current Status:

See Significant Deficiency 2015-003.

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REQUIRED COMMUNICATIONS

To the City Council of
the City of Manteca, California

We have audited the basic financial statements of the City of Manteca for the year ended June 30, 2016. 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 the 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) pronouncement became effective, but did not have a material effect on the financial statements:

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The following pronouncements became effective and required modifications to the notes to financial statements.

GASB Statement No. 72 – *Fair Value Measurement and Application*

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

GASB 79 – Certain External Investment Pools and Pool Participants

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB 82 – Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

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. The dissolution of the former Redevelopment Agency had a material impact on the financial statements of the City.

As discussed in Note 16, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Manteca Redevelopment Agency was dissolved and its assets turned over to and liabilities assumed by Successor Agencies effective January 31, 2012. Details of the dissolution are discussed in Note 16.

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 estimates affecting the City's financial statements are:

Estimated Fair Value of Investments: As of June 30, 2016, the City held approximately \$287.5 million of cash and investments as measured by fair value as discussed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.

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.

Estimate of Compensated Absences: Accrued compensated absences which are comprised of accrued vacation, sick leave and compensated time off 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 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 accounting valuations determined by the California Public Employees Retirement System and a GASB 68 Accounting Information report prepared by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimates and determined that they are 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.

Estimated Claims Liability: Management's estimate of the claims liability 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 Fair Value of Swap Agreement: The Successor Agency to the Redevelopment Agency has one swap arrangement with Piper Jaffray Financial Products, Inc. with a negative fair value of \$14,833,908, as disclosed in Note 16D to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2016. The fair value is not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.

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 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, except for the entries to assist the City with posting the City's post-closing adjustments to record the activities related to: GASB Statements No. 68 and 71, the change in claims payable, the change in compensated absences, the change in the Other Post-Employment Benefits, the change in fair value of the swap agreement and the Successor Agency's capital asset and long-term debt balances.

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 February 23, 2017.

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 governmental unit'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 accompanying 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 included as part of the Comprehensive Annual Financial Report, but are not required supplementary information. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

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, CA
February 23, 2017