

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

**FOR THE YEAR ENDED**  
**JUNE 30, 2015**

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

**For the Year Ended June 30, 2015**

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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, 2015, 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 and Status of Prior Year 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 cursive script that reads 'Maze & Associates'.

Pleasant Hill, California  
December 30, 2015

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**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF 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.

***Management's Response:***

Conversion has been completed as of June 30, 2015. Staff has familiarized themselves with the new depreciation reports and will be reviewing those reports for reasonableness in conjunction with year-end closing.

**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.

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.

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

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

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.

***Management's Response:***

The City agrees with the issue and notes that an employee that was responsible for the issue is no longer employed.

**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.



CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2015-003      Investment Reporting and Compliance (Continued)

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.

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.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

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

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.

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 OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES**

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

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.

***Management's Response:***

- a. The City agrees with the above issue and with the hiring and training of the new employee hopes that it will not recur in the future.
  
- b(i) We agree with the issue and will review future reports for accuracy.
  
- b(ii) The City agrees with the issue and will evaluate current procedures to determine if a change is feasible.
  
- b(iii) The City agrees with the issue and will look into a solution.
  
- b(iv) The City agrees with the issue and will determine if the date will be removed or updated on a go forward basis.

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

The covenants of the City's 2012 Water Refunding Bonds and 2012 Sewer Refunding Bonds require the 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.

***Management's Response:***

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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**CITY OF MANTECA  
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**SCHEDULE OF 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.

***Management's Response:***

The City will review the date stamp more carefully in the future to ensure better accuracy.

**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.

***Management's Response:***

The County has been unresponsive in resolving this matter. The City is going to void the checks and write them off.

**CITY OF MANTECA  
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**SCHEDULE OF 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.

***Management's Response:***

The City will resolve the disposition of the remaining funds by June 30, 2016.

**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

***Management's Response:***

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**

**SCHEDULE OF OTHER MATTERS**

**OTHER INFORMATIONAL ITEMS**

**Single Audit - Uniform Guidance**

The Office of Management and Budget (OMB) is streamlining the Federal government's guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. The final guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in OMB guidances); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up, and is referred to as the Uniform Guidance.

The Uniform Guidance consolidates the guidance previously contained in the aforementioned citations into a streamlined format that aims to improve both the clarity and accessibility. The final guidance is located in Title 2 of the Code of Federal Regulations.

This final guidance does not broaden the scope of applicability from existing government-wide requirements affecting Federal awards to non-Federal entities including state and local governments, Indian tribes, institutions of higher education, and nonprofit organizations. The guidance is intended to provide a government-wide framework for grants management which will be complemented by additional efforts to strengthen program outcomes through innovative and effective use of grant-making models, performance metrics, and evaluation.

In addition to revisions to the administrative requirements for federal grants, the threshold for a Single Audit was increased to federal award expenditures of \$750,000 or more during the fiscal year.

The Uniform Guidance is effective for Federal agencies beginning December 26, 2013 and applicable for non-Federal entities beginning on or after December 26, 2014 (fiscal year 2016). However, the administrative provisions of the Uniform Guidance are effective for grants with federal award dates of December 26, 2014 or later.

City staff should review each grant award date to determine which the administrative requirements are applicable to each of the City's federal grants and ensure procedures are in place to comply with the provisions applicable to each grant.

**AB1248 – State's Internal Control Guidelines**

AB1248 added Government Code Section 12422.5 which required the State Controller's Office to develop internal control guidelines applicable to each local agency. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. However, there is no requirement that the tools developed must be used in the form provided.

City staff should consider reviewing the 2015 Internal Control Guidelines for California Local Agencies as a tool to evaluate the design and function of the City's internal control structure. The 2015 Guidelines are available on the State's website.

In addition, the State Controller's Office intends to update the Guidelines periodically, so the Guidelines should be reviewed at least annually to determine if any significant revisions were made that could impact the City's internal control policies or procedures.

**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 cite them here to keep you informed of developments:

**EFFECTIVE FISCAL YEAR 2015/16:**

***GASB 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 pay 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.

***GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

**EFFECTIVE FISCAL YEAR 2016/17:**

***GASB 74 –Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans***

The objective of this Statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment 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 post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.



CITY OF MANTECA  
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SCHEDULE OF OTHER MATTERS

**NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**  
**(Continued)**

**EFFECTIVE FISCAL YEAR 2017/18:**

***GASB 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment 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 post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2014-001      Accurate Preparations of Bank Reconciliations**

Bank reconciliations should be reviewed and approved in detail to ensure that reconciling items are valid and that the reconciled balance agrees to the bank statement and the general ledger.

We reviewed the January 2014 General Account bank reconciliation and noted that the reconciled balance did not agree to the general ledger. After following up with City staff, we noted there were four reconciling items totaling \$123,250 that had not been included in the approved reconciliation.

We understand the issues noted were due to two employees that had each started, but not completed, the reconciliations prior to their departure.

City staff should determine how the reconciling items were omitted from the reconciliation and develop procedures to ensure that the review process includes agreeing the general ledger balances in the reconciliation to the system balances.

***Current Status:***  
Implemented.

**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.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

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

The City 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.

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:***

The City agrees and with the hiring and training of a new employee will work to make sure that the bank reconciliations are done and reviewed more timely in the future.

**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.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

**2014-003      Timely Review of Journal Entries (Continued)**

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 current year comment 2015-002.

**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.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
SIGNIFICANT DEFICIENCIES**

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

***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.

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. There is currently no way to mitigate this issue with the New World System. New World is currently working on a fix. User and Super-User rights are being carefully evaluated to establish appropriate internal control procedures.
- b. There is currently no way to mitigate this issue with the New World System. New World is currently working on a fix.
- c. There is currently no way to mitigate this issue with the New World System. New World is currently working on a fix. Staff has advised the software vendor of the need to audit this critical area and has been advised that a report is in the development stages. In the meantime, staff will be working with the City's Information Technology Department to determine if an internal report can be developed.

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:***

- a. Not Implemented – see 2012-02.
- c. Not Implemented – see 2012-02.
- d. Not Implemented – see 2012-02.

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**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.

**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:***

Staff will be processing requests for reimbursement for bond eligible expenditures and identifying future bond eligible projects by June 30, 2016.

**2014-005      Reconciliations of Cash Deposits to Bank Statements**

Daily deposits should be easily traceable to the bank statements or, in the case of credit card payments, they should be reconciled to the bank statements.

We selected forty utility payments for testing of the calculation of amounts billed and that the payments were deposited in the bank timely. During our testing, we noted one payment that could not be traced to the bank statement (Receipt Number 2014-20923 for \$199.64, included in Batch Number 2014-291).

We followed up with City staff and noted that the City does not have confirmation that the entire batch deposit was successfully deposited into the City's general checking account due to a change in the 3<sup>rd</sup> party credit card processor. In February of 2014, the City changed its 3<sup>rd</sup> party credit card processor two times, causing timing differences in the bank deposits. In addition, we understand several payments that had been voided according to the City's records had been deposited by the credit card processor, and were yet to be adjusted as of June 17, 2014.

The City should ensure all deposits are posted to the bank intact and any errors are corrected by the bank or the 3<sup>rd</sup> party credit card timely.

***Current Status:***

Implemented.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**2014-006      Submission of Financial Statements to Council**

The City should present the Comprehensive Annual Financial Report (CAFR) and Memorandum on Internal Control (MOIC) to the City Council shortly after they are issued in final form, and if the documents are not formally presented to City Council, documentation of the transmission should be retained. We noted that the 2013 CAFR and MOIC had not been submitted to City Council as of June 2014, and they were not submitted until October 2014.

We understand that City staff did not present the 2013 CAFR and MOIC to the City Council during the “normal” period of early in the calendar year due to the delayed issuance of the reports.

The 2013 CAFR and MOIC should be presented to the City Council as soon as possible and City staff should develop procedures to ensure that the presentation of the reports to City Council in the future is more timely.

***Current Status:***  
Implemented.

**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 current year comment 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:***

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

See also comment 2015-008

**2013-03      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.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**2013-03      Information Technology Best Practices Recommendations (Continued)**

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

We noted an area which could be improved to conform to NIST guidelines. A summary of the 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. The City should ensure that applicable controls are put in place to comply with the PCI-DSS.

***Current Status:***

Implemented.

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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**

**2012-04      Timely Adoption of the Annual Budget**

The annual budget for the City and Redevelopment Agency should be adopted by the City Council by July 1 every year. Although the City and Agency had adopted Resolutions to continue appropriations and expenditures on the basis of fiscal year 2011 budget until the 2012 budget was adopted, the 2012 budgets were not adopted until April 3, 2012.

While we understand the delayed budget approval arose from the fact that City was in discussions with six bargaining units/associations in order to address the increasing costs of employee compensation and the City also had funds at risk of being seized by the State. The City believed these issues had to be addressed before the budget could be approved. However, an original budget adopted after the three quarters of the fiscal year have passed does not become a meaningful document and tool to control appropriations. In the future, the City should develop procedures to minimize the delay and work to approve a budget for every upcoming fiscal year before the start of that fiscal year.

**Update for 2013 Audit** - The City did not adopt the City's fiscal year 2013 budget until July 23, 2012.

**Update for 2014 Audit** - The City did not adopt the City's fiscal year 2014 budget until July 16, 2013.

***Current Status:***  
Implemented.

**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:***  
The City will work to adopt the limit in a timelier manner in the future.

**CITY OF MANTECA  
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR  
OTHER MATTERS**

**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 City 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 current year comment 2015-003.

**2012-08      Claims Payable**

The City's estimate for claims payable should be based on the uninsured balance of outstanding claims and judgments, including a provision for claims incurred but not reported. Based on the claims activity, the City has not adjusted the total outstanding balance in at least the last two fiscal years, and instead recorded any reduction in known claims as an increase to the provision for claims incurred but not reported. However, the balances of the known claims have declined significantly over the last two fiscal years. Therefore, the City should review the calculation of the claims incurred but not recorded to reduce it to a balance that reflects the experience over last few fiscal years.

***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 for the year ended June 30, 2015. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *Government Auditing Standards* and *OMB Circular A-133*.

### 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:

#### GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employees whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The pronouncement became effective and, as disclosed in Notes 9E and 10 to the financial statements, required prior period adjustments for the cumulative effect on the financial statements.

**GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68***

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine *all* such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

The pronouncement became effective and, as disclosed in Notes 9E and 10 to the financial statements, required prior period adjustment for the cumulative effect on the financial statements.

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

**GASB 69 – *Government Combinations and Disposals of Government Operations***

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.



- The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.
- A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.
- This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

#### ***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. However, the dissolution of the former Redevelopment Agency had a material impact on the financial statements of the City:

As discussed in Note 16 to the financial statements, the State enacted laws which dissolved Redevelopment Agencies effective January 31, 2012. The City elected to become the Housing Successor to the Redevelopment Agency and pursuant to the laws it received the encumbered housing assets of the former Redevelopment Agency. Certain other assets were distributed to and all of the Redevelopment Agency's debts were assumed by a Successor Agency governed by an Oversight Board. This Successor Agency is reported as a private purpose trust fund.

In fiscal 2011 and 2012, the former Redevelopment Agency transferred \$58,959,477 of assets to the City. ABx1 26 and AB 1484 contain provisions that such transfers are subject to a review by the State Controller's Office. According to Health and Safety Code 34167.5, if such an asset transfer did occur during that period and the government agency that received the assets is not contractually committed to a third party for the expenditure or encumbrance of those assets, to the extent not prohibited by state and federal law, the Controller shall order the available assets to be returned to the former Redevelopment Agency or, on or after February 1, 2012, to the Successor Agency. As of June 30, 2012, assets totaling \$44,129,682, comprised of current assets of \$43,670,205 and capital assets of \$459,477, were held by the City. During fiscal year 2013, the City returned the current assets of \$43,670,205 to the Successor Agency and only the capital assets of \$459,477 were held by the City. The City received the results of the State Controller's asset transfer review in February 2015 that indicates the City is to return the capital assets in the amount of \$459,477 to the Successor Agency. Concurrent with the finalization of the asset transfer review, the City has been working with the California Department of Finance (DOF) on the Successor Agency's Long Range Property Management Plan (LRPMP). Initial conversations with the DOF indicate that the capital assets identified in the asset transfer review will be identified as City-owned land upon final approval of the LRPMP. Based on these discussions, the City anticipates that the assets identified will be approved to be retained by the City. City management has indicated that they will abide by the final determination as set by the DOF. Therefore, the amount, if any, of assets to be returned is not determinable at this time.

### *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 are:

*Estimated Fair Value of Investments:* As of June 30, 2015, the City held approximately \$276.7 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, 2015. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2015.

*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 \$10,392,413, as disclosed in Note 16D to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2015. The fair value is not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2015.

### ***Disclosures***

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the Redevelopment Agency dissolution and former Redevelopment Agency in Note 16 to the financial statements. See discussion under *Unusual Transactions, Controversial or Emerging Areas* above regarding the unsettled law and highly contingent nature of these matters.

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 entry to record the corrections to accumulated depreciation and depreciation expense discussed in Comment 2015-001, and the entries to assist the City with posting the City's post-closing adjustments to record the activity related to the implementation of GASB Statements No. 68 and 71, the change in claims payable, the change in compensated absences, 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 December 30, 2015.

### ***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.

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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.

*Mase & Associates*

Pleasant Hill, CA  
December 30, 2015

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