CITY OF MANTECA

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2014

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CITY OF MANTECA
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2014

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MAZE & ASSOCIATES

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, 2014, 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.

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. Given the limitations above, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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 to be of potential benefit to the City.

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.

Maze & Associates

Pleasant Hill, California
February 25, 2015

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SCHEDULE OF 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.

Management's Response:
The incident cited for January was primarily attributable to a single incoming wire for a grant reimbursement. The item was included on the bank reconciliation, reflecting correctly what was recorded as receipts by the bank. However, Finance had not received sufficient information at that time of receipt as to the source of the wire. Once the source of the wire was identified and confirmed as a City receipt, the item was recorded on the General Ledger. This resulted in a timing difference between the G/L and the bank reconciliation. However, until the source of funds could be identified, the City did not want to overstate cash on the G/L. Procedures have been established to prevent this from occurring in the future.

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.

SCHEDULE OF 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 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.

> ***Management's Response:***
> Staff concurs with the importance and the need for more timely preparation and review of bank reconciliations. With the adoption of the FY 14-15 budget, an additional position was added to the finance department which will allow the Accounting Manager to more closely monitor these activities.

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.

> ***Management's Response:***
> Staff concurs with the importance and the need for more timely review of journal entries. With the adoption of the FY 14-15 budget, an additional position was added to the finance department which will allow the Accounting Manager to more closely monitor these activities.

SCHEDULE OF 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.

> ***Management's Response:***
> Staff will be processing requests for reimbursement on bond eligible expenditures by June 30, 2015.

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 3rd party credit card processor. In February of 2014, the City changed its 3rd 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 3rd party credit card timely.

> ***Management's Response:***
> The instance and timing cited were directly related to the City' utilities module conversion and issues related to the processing of credit cards. The related issues with credit card processing have been resolved and this is no longer an issue.

SCHEDULE OF 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.

> ***Management's Response:***
> With changes to the composition of the City Council members, beginning with the FY 13-14 CAFR, staff will be making formal presentations of the CAFR at a Council Meeting.

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.

> ***Management's Response:***
> With changes to the composition of the City Council members, beginning January 2014, staff will be making recommendations regarding the Investment Policy to include recommendations regarding compliance with California Government Code Section 53607.

SCHEDULE OF 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.

> ***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

NEW GASB PRONOUNCEMENT NOT YET EFFECTIVE

The following comment represents a new pronouncement taking affect in the next fiscal year. We cite it here to keep you informed of developments:

EFFECTIVE FISCAL 2015:

GASB 71 – ***Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB 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* discussed in the Current Status of Prior Year Schedule of Other Matters section below. The issue relates to determining the beginning balances of deferred inflows and outflows required under the provisions of GASB Statement No. 68 and amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

SCHEDULE OF OTHER MATTERS

GASB 71 – ***Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68 (Continued)***

Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

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.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

Management Response:
The City intends to implement the provisions of the Statement in fiscal year 2015.

STATUS OF PRIOR YEAR
SCHEDULE OF 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 and 2014 Audits –We again noted the lack of segregation of duties associated with super users and reviewing changes to the vendor and employee databases.

Current Status:

a. The City is completing the process of implementing new ERP software. User and Super-User rights are being carefully evaluated to establish appropriate internal control procedures.

STATUS OF PRIOR YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

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

b. With the implementation of the new ERP software, as of July 1, 2013 invoices are input at the department level with required electronic approval by authorized personnel outside of the Finance Department. Departments do not have access to the vendor file to make changes. All changed to the vendor file are completed by the Senior Accounting Technician to provide for an appropriate segregation of duties.

c. Staff has determined that the newly implemented ERP software does not include a demand report that would allow staff to review for changes made to the employee data base. 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.

2010-01 **Purchasing Policy Compliance**

We selected thirty disbursements for testing of controls over purchasing procedures and compliance with the City's policies and procedures and noted the following:

a) The City's Purchasing Policy states that all expenditures, except for capital improvements over $5,000, require a Purchase Order. Sixteen of the disbursements tested did not have the required Purchase Order.

b) The City's Purchasing Policy is split into three different purchasing categories including: Supplies, Materials, Maintenance and Equipment; Professional Services; and Capital Improvements. Two disbursements tested did not appear to fall into one of the three categories of the Purchasing Policy; therefore it was unclear what the requirements for those purchases were. These disbursements included membership dues in the amount of $35,000, and fees for the cost of an environmental impact report in the amount of $6,695. Although the membership dues were approved by Council, the disbursement was not supported by a purchase order or a contract.

c) The City should maintain supporting documentation for the approval process of disbursements. For five of the disbursements tested, the City was unable to provide us with the authorizing resolution and/or contract that is required by the Purchasing Policy.

d) The City should obtain a new contract or resolution if a vendor leaves the originally approved firm and goes to another one, but remains as a vendor for the City. One of the disbursements tested was for an attorney that had worked for a law firm under contract with the City, but he had subsequently left to start a firm of his own. The City never established a contract with the new firm, and did not have Council complete an approving Resolution to work with the attorney under the name of the new firm.

The City's Purchasing Policy has not been updated since 1997. While we understand that the City is in the process of updating the Purchasing Policy, the City should ensure that the revision reflects the current practices or that staff is trained to comply with the requirements that are included in the current Policy.

STATUS OF PRIOR YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

2010-01 Purchasing Policy Compliance (Continued)

In addition, when the Policy is updated the City should consider including a section for exceptions to the standard practices for purchases that do not fit into the normal purchasing function. The City should also develop a system to maintain the appropriate documents that are required for a disbursement to be approved. Finally, the City should make sure that contracts with existing vendors are current and valid.

Current Status:
The City has recently completed a financial software conversion. In connection with the conversion, staff is in the process of reviewing all purchasing policies for needed revisions and updates.

See also Current Status of Comment 2012-06.

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.

STATUS OF PRIOR YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

2010-03 Internal Controls – Segregation of Duties (Continued)

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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MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

2013-01 Terminated Employees

When employees are terminated or leave employment, the City should remove them from the payroll system at the time of their departure. We selected a sample of ten employees terminated during fiscal year 2013 and noted that four of the employees selected had final pay dates between March 2009 and September 2011. The City stated that it does not remove employees from the payroll system in case they come back for future employment, such as seasonal employees. The City should remove terminated employees from the payroll system immediately upon their departure and if they are re-hired at a future date they should be re-entered into the system.

Current Status:
Implemented - The Human Resources Department has revised its policy regarding terminations to include all employees.

2013-02 Variable Interest Rate for the 2005 Tax Allocation Refunding Bonds

The City should monitor the variable interest rates for the 2005 Tax Allocation Refunding Bonds when interest payments are made in order to ensure that the City is being charged the correct amount for each interest payment. City staff was unable to provide us with the June 30, 2013 variable interest rate for the 2005 Tax Allocation Refunding Bonds and we had to obtain it from another client that has bonds with the same variable rate structure.

In our conversations with the Finance Director, she noted that the employee at Piper Jaffray (the bondholder and remarketing agent) who was in charge of preparing the Manteca Swap Performance spreadsheet that tracks the daily variable interest rate on the bonds and the variable interest rate related to the swap agreement is no longer with the company and no one has taken over his duties to prepare this information.

The City should contact Piper Jaffray to ensure they provide the City with the periodic variable interest rates on the Bonds. In addition, the City should request the calculation of the interest payments due in order to ensure that interest payments are accurate.

Current Status:
Implemented – The City has contacted Piper Jaffray and is now in receipt of all information regarding the 2005 Tax Allocation Refunding Bonds including periodic variable interest rates.

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.

STATUS OF PRIOR YEAR
SCHEDULE OF 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[1]. 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:
The City has recently completed a financial software conversion. The new ERP software has partially mitigated the exposure associated with credit cards by outsourcing transaction processing to a third party. Staff will continue to implement additional controls associated with payment card industry compliance.

[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

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STATUS OF PRIOR YEAR
SCHEDULE OF 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:***
> City staff continues to work with Council to adopt the budget by July 1st of each fiscal year. However, Council still preserves its authority to delay budget adoption to allow for full participation by the citizens. For Fiscal Year 2013-14, Council delayed budget adoption by 3 weeks to allow for additional review by the citizens. For Fiscal Year 2014-15 the public hearing for the budget adoption was held on for July 1 and the budget was approved.

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.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

2012-05 Adoption of the Appropriations Limit (Continued)

Current Status:
The City is unable to adopt the Appropriations Limit until the City's annual budget is adopted by Council. For Fiscal Year 2014-15, the budget was adopted on July 1, 2014. As a result, the Appropriations Limit for Fiscal Year 2014-15 was not adopted until July 15, 2014.

The budget schedule for Fiscal Year 2015-16 will provide for the Annual Budget and associated Appropriations Limit to be adopted prior to July 1, 2016.

2012-06 Purchasing Policy Compliance

We selected forty disbursements for testing of controls over purchasing procedures and compliance with the City's policies and procedures and noted the following:

a) The City's Purchasing Policy states that all expenditures, except for capital improvements over $5,000, require a Purchase Order. Twenty five of the disbursements tested did not have the required Purchase Order.

b) The City's Purchasing Policy is split into three different purchasing categories including: Supplies, Materials, Maintenance and Equipment; Professional Services; and Capital Improvements. Seven disbursements tested for items such as fees, dues, subscriptions, deposit refunds and donations did not appear to fall into one of the three categories of the Purchasing Policy; therefore the documentation requirements for those purchases/disbursements are unclear.

The City's Purchasing Policy has not been updated since 1997. We understand that the City is in the process of updating the Purchasing Policy. The City should revise and update its Purchasing Policy to reflect the current practices or comply with the one that is currently in place.

In addition, when the Policy is updated the City should consider including a section for addressing the purchase categories above or include a section of exceptions to the standard practices for purchases that do not fit into the normal purchasing categories.

Update for 2013 Audit – During our testing of forty disbursements for testing of controls over purchasing procedures and compliance with the City's policies and procedures, we noted the following:

a) Twenty-one of the disbursements tested did not have the required Purchase Order.

b) One disbursement for library funding did not appear to fall into one of the three categories of the Purchasing Policy discussed in b) above; therefore the documentation requirements for that purchase/disbursement is unclear.

Current Status:
Of the disbursements identified, all had appropriate expenditure approval. The majority were for professional services or contracts which are no longer encumbered with a purchase order. The City has recently completed a financial software conversion. In connection with the conversion, staff is in the process of reviewing all purchasing policies for needed revisions and updates.

STATUS OF PRIOR YEAR SCHEDULE OF 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:
The Accounting Manager and staff have been advised of the need to ensure that the Treasurer's Report is completed within 30 days of the close of any given month.

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:
Staff has begun to review the liability reserve to develop recommendations for Council's adoption regarding reserve balances for claims incurred by not recorded.

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 abreast of developments:

EFFECTIVE FISCAL 2014:

GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

GASB 70 - ***Accounting and Financial Reporting for Nonexchange Financial Guarantees (Continued)***

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods **beginning after June 15, 2013**. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

How the Changes in this Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL 2015:

GASB 68 - <u>Accounting and Financial Reporting for Pensions (an amendment of GASB 27)</u>

This Statement will have material impact on the City's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

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 employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**<u>net pension liability</u>**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**<u>total pension liability</u>**), **less** the amount of the pension plan's **<u>fiduciary net position</u>**.

- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Single and Agent Employers

- In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

- This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

- The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

- Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

- In governmental fund financial statements: A net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable **available** financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

- Notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

    - For the current year, sources of changes in the net pension liability

    - Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

- Required Supplementary Information: Single and agent employers are required to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

  - Sources of changes in the net pension liability

  - The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

  - Schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

  - Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Cost-Sharing Employers

- Government-wide and accrual basis of accounting financial statements: A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its **proportionate** share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

- In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

- In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

- Notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

- This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

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, 2014. 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.

The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

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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 to 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. ABxl 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 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.

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, 2014, the City held approximately $269.7 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, 2014. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2014.

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 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 $9,219,839, as disclosed in Note 16D to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2014. The fair value is not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2014.

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

Disclosures

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, other than those to assist with recording the balances and activity related to capital asset additions, the fair value of the swap agreement, the net OPEB obligation 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 25, 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

With respect to the supplementary information accompanying the financial statements, 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.

With respect to the required supplementary information accompanying the financial statements, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor 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.

Maze & Associates

Pleasant Hill, CA
February 25, 2015

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