



City of San Leandro

Meeting Date: May 16, 2016

Staff Report

File Number: 16-228 **Agenda Section:** CONSENT CALENDAR

Agenda Number: 8.L.

TO: City Council

FROM: Chris Zapata
City Manager

BY: David Baum
Finance Director

FINANCE REVIEW: David Baum
Finance Director

TITLE: Staff Report on the Independent Auditor's City of San Leandro Memorandum of Internal Control and Required Communications for the Year Ended June 30, 2015

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council accept the City's Memorandum of Internal Control and Required Communications for the year ended June 30, 2015

BACKGROUND

On February 16, 2016, City Council accepted the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2015. In planning and performing the audit of the financial statements, the City's independent auditors considered the City's internal control over financial reporting (internal control) as a basis for designing the auditing procedures for the purpose of expressing opinions on the financial statements. At the completion of the audit, an unqualified, clean opinion was rendered by Maze & Associates.

DISCUSSION

The City's independent auditor completed audits of the City's financial statements, including the Memorandum of Internal Control (MOIC). The audit affirmed the existence and quality of the City's internal controls.

Attached is the MOIC from the City's external auditor which includes constructive recommendations to ensure the City's accounting function is timely, complete and accurate.

ATTACHMENT

- Memorandum of Internal Control for Fiscal Year Ended June 30, 2015

PREPARED BY: David Baum, Finance Director, Finance Department

**CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2015**

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**CITY OF SAN LEANDRO
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 San Leandro, California

In planning and performing our audit of the basic financial statements of the City of San Leandro, California, as of and 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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. Given these limitations, during the audit, 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of benefit to the City.

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

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
December 8, 2015

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**CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2015-01 Investment Report Compliance with California Government Code 53646

Criteria: Per California Government Code 53646, “quarterly report shall include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.” In addition, the City’s Investment Policy Statement also requires this language to be included on the City’s Investment Report.

Condition: During our interim phase of audit, we reviewed the March 31, 2015 Investment Report and noted that the report did not include the required language that the City will meet the cash obligations for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

Effect: The March 31, 2015 Investment Report is not in compliance with the California Government Code 53646 or the City’s Investment Policy Statement.

Cause: City staff was unaware that the requirement was excluded from the Report.

Recommendation: The City should ensure that the Investment Report adheres to all requirements of the California Government Code 53646 and the City’s Investment Policy Statement.

Management’s Response: All quarterly investment reports issued since July 2015 include the statement “The City of San Leandro is able to meet its pool’s expenditure requirement for the next six months.” This statement is included in each quarterly investment report after a cash flow analysis has been performed to confirm that the City is indeed able to meet its pool’s expenditure requirement for the next six months.

**CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

Upcoming Governmental Accounting Standards Board Pronouncements

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

Effective in 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 in fiscal year 2016-17:

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

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

CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

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.

GASB 77 – Tax Abatement Disclosures

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

Effective in 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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REQUIRED COMMUNICATIONS

To the City Council of
the City of San Leandro, California

We have audited the basic financial statements of the City of San Leandro 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 and, *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 City of San Leandro are described in Note 1 to the financial statements. The following pronouncement became effective, but did not have a material effect on the financial statements:

GASB Statements No. 69 -- *Government Combinations and Disposals of Government Operations*

The following pronouncements became effective, and as disclosed in Note 1 to the financial statements required a prior period adjustment for the cumulative effect on the financial statements.

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

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.

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 non-employer entity has a legal requirement to make contributions directly to a pension plan.

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 non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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.

Estimates

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

- ***Estimated 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 14 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- ***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 6 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- ***Estimated Fair Value of Investments:*** As of June 30, 2015, cash and investments were measured by fair value. 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.

Disclosures

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

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 8, 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 prepared the financial statement for 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 preform other procedures on this other information and we do not express an opinion or provide any assurance on them.

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

Kare & Associates

Pleasant Hill, California
December 8, 2015



City of San Leandro

Meeting Date: May 16, 2016

Minute Order - Council

File Number: 16-229

Agenda Section: CONSENT CALENDAR

Agenda Number:

TO: City Council

FROM: Chris Zapata
City Manager

BY: David Baum
Finance Director

FINANCE REVIEW: David Baum
Finance Director

TITLE: MOTION Accepting the City's Memorandum on Internal Control and Required Communications for the Year Ended June 30, 2015
