

**CITY OF SAN LEANDRO  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS  
FOR THE YEAR ENDED JUNE 30, 2016**

This Page Left Intentionally Blank

**CITY OF SAN LEANDRO  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For The Year Ended JUNE 30, 2016**

**Table of Contents**

	<b><u>Page</u></b>
<i>Memorandum on Internal Control</i> .....	1
Schedule of Significant Deficiency.....	3
Schedule of Other Matters .....	5
<i>Required Communications</i> .....	9
Significant Audit Findings.....	9
Accounting Policies.....	9
Unusual Transactions, Controversial or Emerging Areas .....	10
Accounting Estimates.....	10
Disclosures.....	10
Difficulties Encountered in Performing the Audit.....	10
Corrected and Uncorrected Misstatements.....	10
Disagreements with Management.....	11
Management Representations .....	11
Management Consultations with Other Independent Accountants .....	11
Other Audit Findings or Issues .....	11
Other Information Accompanying the Financial Statements .....	11

This Page Left Intentionally Blank

## 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, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiency in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control included on the Schedule of Significant Deficiencies to be a significant deficiency.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's 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 21, 2016

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

**SCHEDULE OF SIGNIFICANT DEFICIENCY**

**2016-01 Year-End Close**

**Criteria:** Management is responsible for the accuracy of the financial statements and the maintenance of the general ledger system and other records used to prepare the financial statements. Timeliness of the financial statements is key to a best practices approach in providing policy makers the year-end financial results soon enough to be useful and to meet filing deadlines.

**Condition:** The City provided approximately forty post-closing adjusting journal entries which resulted in a delay in the timely completion of multiple financial statement items primarily including cash and investments and capital assets.

**Cause:** The City has experienced staff turnover during fiscal year 2015-2016 and as a result fell behind in the completion of the year-end close process.

**Effect:** Without adequate staff resources to ensure that the year-end closing was completed properly and accurately, there is an increased risk that material misstatements of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

**Recommendation:** The City's fiscal year end closing process and journal entries associated with the close should be completed and posted prior to the commencement of fieldwork. Staff should plan accordingly to ensure that a complete close of the books is performed prior to scheduling auditors to perform fieldwork.

**Management's Response (prepared by City):** As noted, the City experienced significant staff turnover in fiscal year 2015-16 which caused the year-end process to fall behind prior to commencement of fieldwork. Full staff is now in place and trained. Thus, we do not anticipate delays for the fiscal year 2016-17 audit. Nevertheless, management has already collaborated with staff on measures to ensure better timeliness such as the redistribution of work to employees that can best accomplish that work and better tracking and communication mechanisms for due dates. The City has also transitioned some less critical, but required work to consultants. And lastly, the City is working with its external auditors to allow more time before fieldwork. All of these measures should sufficiently address this deficiency. Unfortunately, the City is not able to add additional staffing resources at this time.

This Page Left Intentionally Blank



**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 2016-17:**

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

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

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

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**GASB 77 – Tax Abatement Disclosures**

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

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

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

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

**SCHEDULE OF OTHER MATTERS**

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

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

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

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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

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

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

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

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

**SCHEDULE OF PRIOR YEAR 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.

**Current Status:** During the fiscal year 2015-2016 audit, we reviewed the June 30, 2016 Investment Report and noted that it explicitly stated “the City is able to meet its cash obligations during the next six-month period.”

This Page Left Intentionally Blank

## 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, 2016. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, *Government Auditing Standards* and the Uniform Guidance.

### Significant Audit Findings

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by 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 Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

**GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants***

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

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

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

The requirements of this Statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

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

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

### ***Accounting Estimates***

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

- *Estimated 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.
- *Estimated Fair Value of Investments:* As of June 30, 2016, the City's cash and investments were measured by fair value as disclosed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.
- *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 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.

### ***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 21, 2016.

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

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

### ***Other Audit Findings or Issues***

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

### **Other Information Accompanying the Financial Statements**

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

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

*Maze & Associates*

Pleasant Hill, California  
December 21, 2016