

CITY OF SACRAMENTO

Report to the City Council

For the Fiscal Year Ended June 30, 2010

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Honorable Members of the
City Council of the City of Sacramento

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sacramento, California (City), as of and for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, and have issued our report thereon dated December 16, 2010.

In planning and performing our audit in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, during our audit, we became aware of a matter that represents an opportunity for strengthening internal control summarized in the Management Comment and Recommendation section of this report.

We previously reported on the City's internal control over financial reporting in our report dated December 16, 2010. We did not audit the City's responses to the findings identified in our report, and accordingly, express no opinion on it.

This letter does not affect our report dated December 16, 2010, on the financial statements of the City.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2010. Professional standards also require that we communicate to you information related to our audit as discussed in required communications section of this report.

We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

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

Maciel Niui & O'Connell LLP

Certified Public Accountants

Sacramento, California

December 16, 2010

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Required Communications
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Qualitative Aspects of Accounting Practices

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. Effective July 1, 2009, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the effect of which has been reported in the Statement of Net Assets. We noted no transactions entered into by the City during the fiscal 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 are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Depreciation estimates for capital assets
- Self-funded insurance liabilities
- Actuarial valuations of pension and other postemployment benefit obligations and required contributions
- Landfill postclosure care costs

Depreciation expense is based on management's estimate of the useful lives of the related capital assets. Management's estimate of the City's self-funded insurance liabilities is actuarially determined based on the City's loss history. The actuarial pension data contained in Note 8 to the financial statements and required supplementary information (unaudited) is based on actuarial calculations performed in accordance with the parameters set forth in GASB Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and 27)* and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The actuarial data for other postemployment benefit obligations contained in Note 9 to the financial statements and required supplementary information is based on actuarial calculations performed in accordance with the parameters set forth in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Management's estimate of its landfill postclosure care costs is determined using methods and assumptions consistent with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to each opinion unit's financial statements taken as a whole.

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Report to the City Council
Required Communications (Continued)
For the Fiscal Year Ended June 30, 2010

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 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, professional standards define a disagreement with management as 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 the management representation letter dated December 16, 2010.

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 governmental unit'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.

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Report to the City Council
Status of Prior Year Recommendation
For the Fiscal Year Ended June 30, 2010

I. OUT-OF-CLASS WORK ASSIGNMENTS

In accordance with Section 3.12(e) of the City of Sacramento Salary Administration Policy and Section 13.1(a) of the labor agreement with the International Union of Operating Engineers, Stationary Local 39, AFL-CIO, (Local 39 Labor Agreement), out-of-class work assignments are required to be documented in writing. During our testing of employees who earned out-of-class pay during the fiscal year ended June 30, 2010, there was no evidence of written notification of the employee's out-of-class work assignment for 5 of the 8 employee files reviewed.

We recommend the City implement procedures to properly document and communicate out-of-class work assignments in writing as required by the Salary Administration Policy and the Local 39 Labor Agreement.

Management's Response:

The City agrees with the recommendation and will strengthen procedures performed by departments to comply with the Salary Administration Policy and the Local 39 Labor Agreement. In addition, the Human Resources Department will implement procedures to monitor compliance with the City's Salary Administration Policy and labor bargaining agreements.