

**CITY OF SACRAMENTO**

Report to the City Council

For the Fiscal Year Ended June 30, 2009

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**Report to the City Council**  
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Honorable Members of the  
City Council of the City of Sacramento

We have audited the financial statements of the City of Sacramento, California (City), as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated January 22, 2010. 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 July 10, 2009. Professional standards also require that we communicate to you information related to our audit as discussed in required communications section of this report.

In planning and performing our audit of the financial statements of the City for the fiscal year ended June 30, 2009, we considered the City's internal controls over financial reporting as a basis for designing audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no opinion on the effectiveness of the City's internal control.

We have followed up on last year's findings and recommendations in the Status of Prior Year Findings and Recommendations section of this report. We previously reported on the City's internal control in our report dated January 22, 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 January 22, 2010, on the financial statements of the City.

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.

*Macias Gini & O'Connell LLP*

Certified Public Accountants

Sacramento, California  
January 22, 2010

## CITY OF SACRAMENTO

Report to the City Council  
Required Communications  
For the Fiscal Year Ended June 30, 2009

### I. Significant Audit Findings

#### *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, 2008, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* the cumulative effect of which has been reported in the Statement of Net Assets. We noted no transactions entered into by the governmental unit 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 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 expense estimates for capital assets
- Self-funded insurance liabilities
- Compensated absences liabilities
- Pension expense
- OPEB expense and unfunded OPEB obligation
- Landfill post-closure 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. Management's estimate of the City's compensated absences liabilities is based on earned vacation and sick leave hours and hourly rate of each employee at year-end. 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. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

## CITY OF SACRAMENTO

Report to the City Council  
Required Communications (Continued)  
For the Fiscal Year Ended June 30, 2009

### I. Significant Audit Findings (Continued)

Management's estimate of the City's annual OPEB expense and unfunded OPEB obligation are based on the estimated costs of providing benefits to the City's current and retired employees and spouses using actuarial methods and assumptions prescribed by GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Management's estimate of its landfill post-closure 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.

#### *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. 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 January 22, 2010.

## CITY OF SACRAMENTO

Report to the City Council  
Required Communications (Continued)  
For the Fiscal Year Ended June 30, 2009

### I. Significant Audit Findings (Continued)

#### *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.

## CITY OF SACRAMENTO

### Report to the City Council Status of Prior Year Findings and Recommendations For the Fiscal Year Ended June 30, 2009

#### I. AUDIT COMMITTEE

In an effort to enhance the quality of the City's financial reporting, we recommend the establishment of an audit committee. An audit committee assists the City Council (Council) in providing independent review and oversight to the City's financial reporting processes, internal controls, and independent auditors. The audit committee would be responsible for engaging the independent auditors, reviewing the overall audit plan, reviewing the audited financial statements and the related management letter, monitoring internal controls over financial reporting and compliance, and initiating, if necessary, investigations for the Council. An audit committee also provides a forum separate from management in which independent auditors and other interested parties may candidly discuss concerns.

##### **Management's Response:**

The City will consider this recommendation in the context of other evaluations currently in progress involving City governance and other organizational structure matters.

##### **Status:**

In progress. In October 2009, the City Council formed an audit committee consisting of four Council Members to provide oversight of the internal audit department. The role and responsibilities of the audit committee in relation to the City's financial reporting processes, internal controls, and oversight of independent auditors are topics for future discussion.

#### II. CONSTRUCTION IN PROGRESS

During our audit, we noted the City currently does not have a formal review and approval process for the determination of the classification of capital project costs at year-end. As part of the year-end closing process, Finance Department staff collaborates with various project managers to determine the proper classification of capital project costs included in construction-in-progress (CIP). Project costs are evaluated to determine amounts related to completed portions of projects requiring reclassification from CIP to land and land improvements or depreciable capital assets in accordance with generally accepted accounting principles. The process does not provide for documentation of the project manager's approval of the proper asset classification. To improve this process, we recommend the City establish year-end close processes and procedures requiring project managers to evaluate project costs and to complete and approve standardized documentation which details project costs by asset classification.

##### **Management's Response:**

The City agrees with the recommendation and will formalize its processes and procedures to determine the proper classification of capital projects costs for financial reporting.

## CITY OF SACRAMENTO

Report to the City Council  
Status of Prior Year Findings and Recommendations (Continued)  
For the Fiscal Year Ended June 30, 2009

### II. CONSTRUCTION IN PROGRESS (Continued)

**Status:**

Implemented. The City implemented new year-end close processes and procedures requiring project managers to evaluate project costs and to complete and approve standardized documentation which details project costs by asset classification.

### III. PROCUREMENT

During our audit, we noted a purchase on a City provided credit card was split over three different transactions related to an invoice totaling \$6,837.43 effectively circumventing City required procurement procedures. According to the City of Sacramento Policy for Procurement of Supplies and Non-Professional Services, procurement activities necessary to acquire a purchase order must be performed for purchases above \$5,000. The condition resulted from the improper supervision, review and authorization of purchases using the City's credit card program. We recommend the City design and implement procedures to ensure that credit card purchases follow written City procurement policies.

**Management's Response:**

The City agrees with the recommendation and has implemented procedures to ensure that credit card purchases follow written City procurement policies.

**Status:**

Implemented. The City implemented procedures to ensure that credit card purchases follow written City procurement policies, including updating and distributing the City's Procurement Card Program Handbook.

### IV. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

During our review of the City's SEFA, it was noted that the annual expenditures were misstated by an amount of approximately \$134,000 or less than 1% of total Federal Awards. The variance was a result of the City reporting federal program expenditures that were not fully reimbursed by the granting agency in accordance with program guidelines. We recommend that the City develop procedures to ensure that total Federal expenditures for each program are reconciled to the amounts reported to their granting agencies at the program level as part of the year-end SEFA preparation procedures.

**Management's Response:**

The City agrees with the recommendation and will develop processes and procedures to ensure that federal program expenditures reported on the SEFA are reconciled to amounts reported to granting agencies.

**CITY OF SACRAMENTO**

Report to the City Council  
Status of Prior Year Findings and Recommendations (Continued)  
For the Fiscal Year Ended June 30, 2009

**IV. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) (Continued)**

**Status:**

Implemented. The City implemented new procedures to ensure that total Federal expenditures for each program are reconciled to the amounts reported to their granting agencies at the program level as part of the year-end SEFA preparation procedures.