

**CITY OF SACRAMENTO, CALIFORNIA**

**MANAGEMENT LETTER**

**JUNE 30, 2016**



To the Honorable Mayor and Members of City Council  
of the City of Sacramento  
Sacramento, California

We have audited the basic financial statements of the City of Sacramento, California (City) for the year ended June 30, 2016, and have issued our report thereon dated December 23, 2016. In planning and performing our audit of the basic financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

### **LANDFILL REGULATORY REPORTS**

#### **OBSERVATION:**

During our review of the City Landfill Closure and Postclosure Liability, we noted that the City Department of Solid Waste was not submitting the Financial Assurances report to the California Department of Resources Recycling and Recovery (CalRecycle), a division of California Environmental Protection Agency. The report is required for all owners of solid waste landfills by Title 27 of the California Code of Regulations and requires the calculation of the inflationary increases in the City's closure, postclosure maintenance, and corrective action cost estimates from previous technical closure and postclosure plans.

#### **RECOMMENDATION:**

We recommend the City work with the CalRecycle to ensure that all necessary submissions of regulatory reports are being made in relation to the City's closed landfills.

#### **MANAGEMENT'S RESPONSE:**

The City agrees with the recommendation and will develop processes and procedures to ensure that all necessary submissions of regulatory reports are made in relation to the City's closed landfills.

### **BOX OFFICE CHECK STOCK**

#### **OBSERVATION:**

During our review of the processes for revenue collections and event settlement at the box office at the Community Center Theater, it was noted that check stock used to pay promoters at the end of an event is located in the safe in the back office of the auditorium. That safe, however, remains unlocked during the day time, allowing access to unauthorized personnel to utilize the check stock. There is no reconciliation process to ensure that all checks are accounted for.

**RECOMMENDATION:**

We recommend the City develop procedures to ensure that all checks are secured and a periodic reconciliation is made to ensure that all checks are valid and accounted for.

**MANAGEMENT'S RESPONSE:**

This City agrees with the recommendation and will develop processes and procedures to ensure that all check stock is secure and periodically reconciled and accounted for.

**PERSONNEL ACTION REPORT**

**OBSERVATION:**

During our review of the payroll and human resource processes, we noted that not all personnel action reports (PAR) have approval of the appropriate department head or have not been signed by the designated PAR preparer. All PARs require both the preparer's signature and the department heads approval before processing.

**RECOMMENDATION:**

We recommend the City enhance internal controls to ensure that all PAR's have the appropriate approvals.

**MANAGEMENT'S RESPONSE:**

This City agrees with the recommendation and will develop processes and procedures to ensure that all City departments follow existing policy to prepare PARs with the appropriate approvals.

**STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS**

<b><u>Topic</u></b>	<b><u>Status</u></b>
Landfill regulatory reports	Not implemented

## **NEW FINANCIAL REPORTING STANDARDS**

### **INFORMATIONAL ONLY**

#### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 73**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

#### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 74**

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

#### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 75**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

#### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 77**

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is not effective until the fiscal year ending June 30, 2017.

#### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 78**

In December 2015, GASB issued Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The provisions in Statement 78 are effective for fiscal years beginning after December 15, 2015. The City has not determined its effect on the financial statements.

### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 79**

In December 2015, GASB issues Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this Statement is to address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 (June 30, 2016), except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 (June 30, 2017). Earlier application is encouraged.

### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 80**

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. 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 Statement is effective for the reporting periods beginning after June 15, 2016, or the 2016-2017 fiscal year.

### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 81**

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The 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, the 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. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-2018 fiscal year.

### **GOVERNMENTAL ACCOUNTING STANDARDS BOARD No. 83**

In November, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The provisions in Statement 83 are effective for fiscal years beginning after June 15, 2018.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

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

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
December 23, 2016