

CITY OF SAN JOSE

Public Safety, Finance &
Strategic Support Committee

Report to Management

For the Year Ended
June 30, 2015



Certified
Public
Accountants

CITY OF SAN JOSE

Public Safety, Finance & Strategic Support Committee
For the Year Ended June 30, 2015

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To Members of the Public Safety, Finance &
Strategic Support Committee and
San José City Council
San José, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José (City) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit 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.

In addition to the City's basic financial statements, we audited and separately reported on the financial statements of the Successor Agency to the Redevelopment Agency of the City of San José (SARA), the Norman Y. Mineta San José International Airport, the Police and Fire Department Retirement Plan, the Federated City Employees' Retirement System, the San José-Santa Clara Clean Water Financing Authority, the Pedestrian/Bicycle Facilities Grant, the Parks and Recreation Bond Projects Fund, the Branch Libraries Bond Projects Fund, the Neighborhood Security Bond Projects Fund, the Library Parcel Tax Special Revenue Fund, and the City of San José Deferred Compensation Plan as of and for the year ended June 30, 2015.

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 entity'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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our 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.

The City's written responses to the recommendations identified are described in the Schedule of Comments and Responses section. The City's responses were not subjected to the auditing procedures applied to our audits of the financial statements. We did not audit the City's responses and, accordingly, we express no opinion on them. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

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 audit plan to the City dated May 26, 2015. Professional standards also require that we communicate to you the information related to our audits discussed on pages 1 through 4.

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

This communication is intended solely for the information and use of the Public Safety, Finance & Strategic Support Committee, City Council, City management, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 16, 2015

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REQUIRED COMMUNICATIONS

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 City's basic financial statements. As described in Note I.E to the financial statements, the City changed accounting policies related to the following:

- **GASB Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and GASB Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68**

These statements address the accounting and financial reporting requirements for the City's pension benefits. As of July 1, 2014, the City restated the beginning net position to record the beginning deferred outflows of resources related to pension contributions and net pension liability as follows:

	Governmental Activities	Business-Type Activities	Total
Net position - beginning, as previously reported	\$ 5,452,867	\$ 1,311,023	\$ 6,763,890
Change in accounting principle	(1,614,368)	(196,425)	(1,810,793)
Net Position - beginning, as restated	\$ 3,838,499	\$ 1,114,598	\$ 4,953,097

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

This statement improves accounting and financial reporting for state and local government's combinations and disposals of government operations. This statement did not affect the City's financial statements.

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 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:

- Fair value of investments
- Estimated allowance for losses on accounts receivable
- Estimated allowance for loans receivable
- Estimated valuation of property held for resale

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- Accrual and disclosure of self-insurance claims liabilities
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property
- Accrual of compensated absences
- Pension plans' employer and employee contribution requirements and the net pension liability of the pension plans
- Other postemployment benefit plans' employer and employee contribution requirements and funded status of the other postemployment benefit plans
- Accrual and disclosure of pollution remediation obligations

Management's estimates were based on the following:

- Fair values of investments traded on a national or international exchange were based on quoted sales prices reported on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. Fund managers provide an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The fair value of the separate real estate properties are based on independent appraisals.
- Estimated allowance for losses on accounts receivable was based on historical experience.
- Estimated allowance for loans receivable is comprised of an allowance for risk and an allowance for present value discount. The allowance for risk was based on the consideration of the changes in the portfolio character, evaluation of current economic conditions and management's estimate regarding the likelihood of collectability based on loan provisions and collateral. The allowance for present value discount was based on management's estimate of the present value of projected net cash flows to the City from the loan portfolio.
- Estimated valuation of property held for resale was based on the most recently available consultant analysis of estimated values performed at the request of a creditor and sales prices previously received from recent solicitations that resulted in purchase and sale agreements.
- Estimated liabilities for workers' compensation claims were based on management's estimate obtained from information derived from the City's claims database system adjusted for a discounted projection of unreported claims at 3.1%. Estimated liabilities for general liability and other claims were determined by the City Attorney's judgment about the ultimate outcome of the claim.
- Useful lives for depreciable property were determined by management based on the nature of the capital asset. Depreciation was calculated based on the straight-line method.
- Accrual of compensated absences was based on accrued eligible hours of vacation, sick leave and other compensatory time at current pay rates for eligible employees.
- Pension plans' employer and employee contributions requirements and net pension liability were based on actuarial valuations.

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- Other postemployment benefit plans' employer and employee contributions requirements and funded status were based on actuarial valuations.
- Accrual and disclosures of pollution remediation obligations were determined by the City's Environmental Compliance Officers and its environmental consultants' judgments about the ultimate outcome of the obligations.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to each opinion unit's financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were as follows:

- The City's Employee Defined Benefit Retirement Plans described in Note IV.A.
- Commitments and contingencies related to the Successor Agency to the Redevelopment Agency of the City of San José described in Note IV.C.4.

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 audits.

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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the opinion unit's financial statements taken as a whole. 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 the management representation letters for each of the audits with dates between September 9, 2015 through November 16, 2015.

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Management Consultation 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 City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

II. Other Matters

We applied certain limited procedures to the management’s discussion and analysis; the schedules of revenues, expenditures, and changes in fund balance – budget and actual for the General Fund, Housing Activities Fund, and Low and Moderate Income Housing Asset Fund; the schedules of employer contributions; the schedule of changes in the employer’s net pension liability – defined benefit pension plans; the schedule of investment returns – defined benefit pension plans, the schedule of the City’s proportionate share of the net pension liability and related ratios – CalPERS, and the schedules of funding progress, which are required supplementary information (RSI) that supplement 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining nonmajor governmental, internal service, trust and agency funds financial statements and schedules; the schedule of expenditures of federal awards; the schedule of passenger facility charge revenues and expenditures; and the schedule of customer facility charge revenues and expenditures, which accompany the financial statements but are not RSI. 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 statements or to the financial statements themselves.

We were not engaged to report on the introductory and the statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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SCHEDULE OF COMMENTS AND RESPONSES

Finding 2015-001 – Control Deficiency
Risk Assessment of Internal Controls Over the Financial Reporting Process

As discussed in prior years, internal control is an integral process that is affected by the City’s governing body, management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the organization’s goals, the following general objectives are being achieved:

- Executing orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations;
- Complying with applicable laws and regulations; and
- Safeguarding resources against loss, misuse and damage.

Internal control is a dynamic integral process that should be continuously adapting to the changes the City is facing. Between 2006 and 2015, the City reduced its budgeted positions by 25 percent. This reduction and displacement of staff through the Civil Service Rules resulted in a significant disruption in the City’s ability to maintain appropriate financial internal controls. In 2015, the City started to address its staffing challenges by filling vacant positions and adding 3 new personnel in the Finance Department. While the City has been successful in recruiting professionals to fill vacant positions over the past two years, it has been challenged with retaining these professionals. As such, the City has been continuously training and integrating new personnel into the City’s complex accounting and financial reporting process. This rebuilding of staff has increased the workload of the remaining seasoned professionals, which contributed to proposed audit adjustments to the financial reporting such as the following:

- Errors in accounts payable year-end cut-offs in the amount of over \$3 million.
- Miscalculations in the housing loan loss reserve spreadsheets in the amount of \$1.3 million.

In addition, late adjusting entries made by the City after the “close” of its financial records and preparation of final financial statements to be audited resulted in increased staff effort in re-doing reconciliations substantiating accounts and balances.

The City has started to make investments in improving its financial reporting process over the past two years; however, progress has been hampered by turnover of its recent hires. We recommend that the City evaluate the reasons for the increase turnover and develop a plan to retain its personnel. In addition, the City should continue to incorporate the skills and experience of its new personnel assigned to key roles in the preparation of the annual financial statements to improve the efficiency of its financial reporting process.

Management Response

As noted in the audit recommendation, the City continues to work on strengthening the internal controls over the accounting and financial reporting process and has made investments in streamlining the CAFR preparation process through the implementation of a new financial reporting software. In addition, the Finance Department continues to be strategic in the assignments for the new and seasoned employees into the Finance Department’s complex accounting and financial reporting process. In order to continue to evaluate, align, and provide consistency in the experience of professionals throughout the City, the Finance Department partners with other departments and actively participates in the recruitment of new employees who will be assigned to accounting and fiscal functions throughout the City.

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SCHEDULE OF COMMENTS AND RESPONSES (Continued)

During the year, the independent internal control consultant engaged by the City released the report on its review of the City's existing internal controls over financial reporting. One of its recommendations was for the City to review and update the City's policies and procedures. The City continues to work with the consultant to review and update the City's policies and procedures. A copy of the consultant's report is available in the Finance Department upon request.

Finally, due to the complexity of the functions in accounting and financial reporting in the Finance Department, the City is working with Human Resources to explore ways to help in attracting and retaining talent by evaluating key finance positions, such as senior accountants.

**Finding 2015-002 – Control Deficiency
Workers' Compensation Claims Control**

The City administers a self-insured workers' compensation program and is responsible for paying all of the workers' compensation claims its employees file and the related administrative expenses. Once an employee files a workers' compensation claim, the City estimates the total amount the City will have to pay over the life of the claim and records this amount in its workers' compensation database system. The City relies on its workers' compensation claims database reports to estimate its liabilities and as such it is imperative that it maintains current and accurate documentation supporting the information included in the database.

The Human Resources Department (HRD) is responsible for administering the workers' compensation program. As part of the program's internal controls, the claim adjuster and supervising claim adjuster each have different levels of authority. A claim adjuster is authorized to reserve up to \$75,000 and a supervising claim adjuster is authorized to reserve up to \$250,000. An approval from the supervising claim adjuster is required if the reserve amount exceeds the adjuster's authority level.

During our audit, we noted the following exceptions in our testing of 40 active case files from a population of 362 active case files:

- One claim file did not include the claimant certification for the benefits.
- Four claim files did not include review and approval of the workers' compensation reserve computations in excess of the adjuster's authority level.
- One claim file did not include review and approval of the workers' compensation claim.
- One claim file showed a reserve amount in the claims database that was different from the supporting documentation.

The policies and procedures are designed to ensure that authorization is received at various level of reserves. We recommend that the City evaluate the effectiveness of its current control processes to ensure that they are operating as designed to safeguard assets and meet its financial reporting requirements.

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SCHEDULE OF COMMENTS AND RESPONSES (Continued)

Management Response

The City concurs with this finding. In order to mitigate risk exposure, the City's workers' compensation program administration will conduct and tighten the claims review process for claims with negative and relatively low balances in conjunction with a given injury exposure. In addition, the claims adjustment staff will be required to complete the reservation worksheet and the supervising staff will continue to approve increases in reserve amount in excess of \$75,000.

In November 2015, the City hired a new Division Manager for the Workers' Compensation, Safety & Employee Health program. With the hiring of the new Division Manager, the focus will include adequate training of staff responsible for the program to ensure compliance to policies and procedures.

Finding 2015-003 – Control Deficiency
Application of the Availability Criterion for Revenue Recognition

The availability principle requires that revenues be recognized when they are collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. The City considers governmental fund revenues to be available if they are collected within 60 days after year-end. During our audit, we noted that the City did not consistently apply the availability criterion in its governmental fund financial statements and overstated revenues in its governmental funds by \$0.3 million.

We recommend that the Finance Department continue training financial statement preparers in other departments on the application of the availability criterion. In addition, the Finance Department should establish a review process at the end of the 60-day period to compare governmental departments' significant revenue year-end accruals with remittances received. Departments that show significant variances in collections of receivables should provide documentation supporting the validity and propriety of the revenue recorded.

Management Response

The Finance Department prepares a 60-day period analysis of accrued accounts receivable at the end of each fiscal year. The Finance Department will continue to work with City departments to ensure compliance to the 60-day criterion for revenue recognition and to follow up when revenue collections did not occur within the 60-day period. Department fiscal staff will also monitor revenue receipts closely to ensure proper deferral of uncollected revenue after the 60-day period. In addition, the department fiscal staff will be encouraged to attend governmental accounting standards update trainings to keep abreast of current financial reporting requirements.

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SCHEDULE OF COMMENTS AND RESPONSES (Continued)

Finding 2015-004 – Control Deficiency
Utility Billing System Rates

The City uses an integrated billing system to bill customers for its utility services, including water, wastewater, and garbage usage. The City's water rates for residential and non-residential customers are based on service rates, which are divided by the City's water service zoning map. The rates along with the water usage information uploaded from the City's meter readings provides the data necessary to generate a utility bill.

During our audit, we noted a charge rate based on the zone allocation in one of our test of 25 water service customers. This error resulted in a \$5,100 credit to the customer dating back to November 2012. The cause of the inaccurate billing rate is due to a geo data error controlled by the City's IT Premise Team.

We recommend that the City evaluate the design of its current procedures to ensure the charge rates and zones recorded in its utility billing system accurately produces current billings to its customers.

Management Response

On July 1, 2015, the City retired the Integrated Billing System and implemented a new system, "CIS Infinity." As a part of the conversion and implementation plan, a widespread data cleanup effort is taking place, wherein a large part of the emphasis has been placed on remediation of previously identified issues, including ensuring that all rates within the new system are accurate and correct. For the Municipal Water utility, a review of all accounts within the system, and reconciliation of rates with the water service zoning map is in process.

As an ongoing control, whenever a new customer moves into an existing address, or a new address is created in the system, the rate(s) associated with the address will be entered in the system by the CIS Operations team, and reviewed and approved by management staff from each utility, before they are finalized in the system. On an annual basis, as rates are changed, the same review and approval/sign-off process has been implemented.

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SCHEDULE OF COMMENTS AND RESPONSES (Continued)

**Comment 2015-005 – Informational Comment
Uniform Guidance for Federal Awards**

The Office of Management and Budget (OMB) published new guidance for federal award programs, *OMB Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, commonly referred to as the “Uniform Guidance,” on December 26, 2013. The new guidance is a key component of a larger federal effort to more effectively focus federal grant resources on improving performance and outcomes while ensuring the financial integrity of taxpayer dollars. By streamlining eight federal circulars into a single, comprehensive policy guide, governments can better administer grants and other types of financial assistance by decreasing the administrative burden for recipients and reducing the risk of waste, fraud and abuse.

Federal agencies must implement policies and procedures by promulgating regulations to be effective December 26, 2014. The City must apply the requirements of the Uniform Guidance to any new federal awards made after December 26, 2014 and to additional funding increments to existing awards made after that date. Of particular importance are the provisions for internal controls, indirect costs, procurement, time and effort reporting, and subrecipient monitoring.

We recommend that the City analyze the Uniform Guidance and work closely with its grantor agencies to determine what compliance requirements have changed beginning on December 26, 2014. Because many individuals amongst multiple departments of the City may be involved with the administration of federal grants, the City may want to consider forming a central Uniform Guidance taskforce to assist in assessing the City’s internal controls, policies and procedures that will need to be amended to ensure compliance with the Uniform Guidance requirements. The Council on Financial Assistance Reform (COFAR) and OMB have conducted webcasts about the Uniform Guidance, which are now archived at www.cfo.gov/COFAR. COFAR has also published *Frequently Asked Questions for New Uniform Guidance at 2 CFR 200*, which may provide additional guidance to the City.

Management Response

The City is aware of the publication of OMB Uniform Guidance. The City is in the process of reviewing the impact of the Uniform Guidance on the City’s administration of federal grants, and will provide the necessary training to City staff who are involved in the grant administration to ensure that the City will be in compliance with the new requirements of the OMB Uniform Guidance.

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SCHEDULE OF COMMENTS AND RESPONSES (Continued)

**Comment 2015-006 – Informational Comment
New Other Postemployment Benefit Accounting Standard**

Postemployment benefits other than pensions (OPEB) principally involve health care benefits, but also may include life insurance, disability, legal and other services. In June 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which are intended to improve the accounting and financial reporting by state and local governments for postemployment benefits (hereinafter referred as “OPEB Standards”).

The OPEB Standards are designed to improve the information reported on OPEB for decision-making and accountability purposes, comparability across governments, and transparency for those who avail themselves to it. They also are designed to equip state and local government policy makers and all users of governmental financial reports with information that would allow them to obtain a more comprehensive understanding of a government’s financial position.

The new OPEB Standards parallel the recently adopted pension standards under GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and intend to bring about fundamental changes in how OPEB is accounted for and reported. Similar to the changes made to the pension standards, these new OPEB Standards provide a more comprehensive picture of what state and local governments have committed to its employees and the associated costs. Accordingly, the OPEB Standards will affect the City’s financial statements in the following ways:

- Changes how the long-term obligation and the annual expense of OPEB are measured,
- Recognize the net OPEB liability on the face of the financial statements, and
- Present more extensive note disclosures and related supplemental schedules.

The provisions in GASB Statement No. 74 affecting OPEB plans are effective for the fiscal year ending June 30, 2017. The provisions in GASB Statement No. 75 affecting employers that provide OPEB benefits are effective for the fiscal year ending June 30, 2018. The City should begin assessing the impacts of the new OPEB Standards and develop a plan to implement the new accounting and financial reporting requirements. In addition, the City should work closely with its OPEB administrator, actuaries and auditors to ensure that all relevant parties are involved in the process that ultimately affect its successful implementation.

Management Response

The City will begin assessing the impacts of the new OPEB Standards and develop a plan to implement the new accounting and financial reporting requirements. The City will work closely with its OPEB administrator, actuaries and auditors to ensure that all relevant stakeholders are involved in the process for a successful implementation.

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STATUS OF PRIOR YEAR'S CONTROL DEFICIENCY COMMENTS

2014 Comment:	<i>2014-001 – Risk Assessment of Internal Controls Over the Financial Reporting Process</i>
Condition/Effect:	<p>Between 2005 and 2014, the City reduced its budgeted positions by 25 percent. This reduction and displacement of staff through the Civil Service Rules resulted in a significant disruption in the City's ability to maintain appropriate financial internal controls.</p> <p>In addition, we note that the City continues to experience turnover in key finance positions throughout the City without experienced personnel to step into the financial reporting role.</p>
Recommendation:	<p>The City will need to continue to evaluate the experience of professionals throughout the City assigned to key roles in the preparation of the annual financial statements to ensure that the most experienced professionals are responsible for the higher risk areas in the financial statement preparation and that there is a robust supervision and review process over those professionals with developing experience. The City should develop a robust succession plan to prepare for planned and unplanned absences of key finance professionals throughout the City.</p>
Status:	<p>In progress. See current year comment 2015-001.</p>
2014 Comment:	<i>2014-002 – Workers' Compensation Claims Control</i>
Condition/Effect:	<p>During our audit, we noted the following exceptions in our test of 40 active case files out of a population of 420 active case files:</p> <ul style="list-style-type: none">• Two claim files did not indicate review and approval of the workers' compensation reserve computations in excess of the adjuster's authority level.• One claim file showed insufficient reserves to cover payments made in the fiscal year.
Recommendation:	<p>The City should evaluate the effectiveness of its current control processes to ensure that they are operating as designed to safeguard assets and meet its financial reporting requirements.</p>
Status:	<p>Not implemented. See current year comment 2015-002.</p>

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STATUS OF PRIOR YEAR'S CONTROL DEFICIENCY COMMENTS (Continued)

2014 Comment:	<i>2014-003 – Application of the Availability Criterion for Revenue Recognition</i>
Condition/Effect:	During our audit, we noted that the City did not consistently apply the availability criterion in its governmental fund financial statements and overstated revenues in its governmental funds by \$1.5 million.
Recommendation:	We recommend that the Finance Department continue training financial statement preparers in other departments on the application of the availability criterion. In addition, the Finance Department should establish a review process at the end of the 60-day period to compare governmental departments' significant revenue year-end accruals with remittances received. Departments that show significant variances in collections of receivables should provide documentation supporting the validity and propriety of the revenue recorded.
Status:	Not implemented. See current year comment 2015-003.
2014 Comment:	<i>2014-004 – Schedule of Expenditures of Federal Award Completeness</i>
Condition/Effect:	During our audit, we noted that the City omitted the following current year federal expenditures in its draft schedule of expenditures of federal awards (SEFA): <ul style="list-style-type: none">• Early Retiree Reinsurance Program (CFDA No. 93.546) with federal expenditures of \$1,273,423• Surveys, Studies, Investigations and Special Purpose Grants Program (CFDA No. 66.606) with federal expenditures of \$74,703
Recommendation:	The City should improve its process for capturing expenditures funded with federal grants in order to report all federal expenditures in the SEFA.
Status:	Corrected.

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SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

Index	Account / Adjustment Description	(Dollars in thousands)	
		Debit	Credit
General Fund/Governmental Activities			
1	Sales Tax Revenue - General Fund	\$ 3,266	
	Sales Tax Receivable - General Fund		\$ 680
	Deferred Inflow of Resources - General Fund		\$ 2,586
	<i>(To adjust sales tax receivable based on actual receipt after year-ended and defer sales tax revenue not collected within the period of availability.)</i>		
2	Expenditures - General Fund	\$ 2,826	
	Accounts Payable - General Fund		\$ 2,826
	<i>(To record the payable related to service billings that were incurred during FY2015.)</i>		
3	Capital contributions - Capital Maintenance	\$ 9,880	
	Fund Balance		\$ 9,880
	<i>(To properly record capital assets received in the prior year.)</i>		
Housing Activities/Governmental Activities			
4	Bad Debt Expense - Housing Activities	\$ 270	
	Reserve for Uncollectible - Housing Activities		\$ 270
	<i>(To correct the loan loss reserve computation.)</i>		
Low and Moderate Income Housing Asset/Governmental Activities			
5	Bad Debt Expense - LMIHA Fund	\$ 1,001	
	Reserve for Uncollectible - LMIHA Fund		\$ 1,001
	<i>(To correct the loan loss reserve computation.)</i>		
Muni-Water Major Enterprise Fund/Business-Type Activities			
6	Accounts Receivable - Muni Water	\$ 2,036	
	Charges for Services - Muni Water		\$ 2,036
	<i>(To recognize revenue for current year unbilled services.)</i>		
	Charges for Services - Muni Water	\$ 1,432	
	Unrestricted Net Position - Muni Water		\$ 1,432
	<i>(To reverse impact of prior year unbilled services.)</i>		