

**CITY OF PLEASANTON  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**CITY OF PLEASANTON  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For The Year Ended June 30, 2017**

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## MEMORANDUM ON INTERNAL CONTROL

To the City Council  
of the City of Pleasanton, California

In planning and performing our audit of the basic financial statements of the City of Pleasanton as of and for the year ended June 30, 2017, 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 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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. 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.

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.

A handwritten signature in black ink that reads 'Maze & Associates'.

Pleasant Hill, California  
December 8, 2017  
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CITY OF PLEASANTON  
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

**2017-01: *Timely Preparation of Bank Reconciliations***

**Criteria:** Bank reconciliations are an important element of the City's internal control structure. In order to have an effective control, the City should complete bank reconciliations as soon as possible after each month-end, usually within thirty days of receipt of statements. The reconciliations should be subsequently reviewed for irregularities and accuracy.

**Condition:** As of late June 2017, the City had not yet performed bank reconciliations for the months of January 2017 to May 2017. Also, per our review of the August 2016 bank reconciliations, we noted they were not reviewed until June 2017.

**Cause:** Issues arose from the implementation of a new financial system during the fiscal year.

**Effect:** By not reviewing the bank reconciliations timely, the City's book balance of cash accounts may not reflect the correct balances during the year. In addition, errors or irregularities may not be detected and remedied in a timely fashion.

**Recommendation:** The City should ensure that bank reconciliations are prepared and reviewed in a timely manner (usually 30 days upon receipt of bank statements).

**Management's Response:** On July 1, 2016 the City went live with Munis. Opening balances in the old system were within each fund while Munis uses a "pooled cash" approach. Finance staff worked with the Munis implementation team to get the balances to match the old system. The balances were finally corrected in mid-May and the June through December of 2016 bank reconciliations were all completed and reviewed.

Secondly, the implementation of the Utility Billing (UB) Module in Munis was delayed from July 1<sup>st</sup> to August 15. When the system went live there were several issues and processes that could not be completed within Munis. For example, several charge codes posted in error and were still being processed in the Legacy system and the balances pulled into the new system were incorrect. Several of the actual cash receipts from UB collections were deposited in the General Fund Account. When Finance staff realized that the UB system implementation was not going as planned we immediately segregated the UB cash flows from being mixed with the General Fund bank accounts thus enabling an isolation of those reconciliations. Finance staff conducted a detailed audit on the system and processes that UB followed and subsequently trained the UB staff on the appropriate processes.

As a mitigating factor Finance staff matched balances and cash flow on a daily basis. Staff completed all reconciliations outside the system and matched them to an excel cash log as soon as the bank statements were available. If any items were identified as not being posted or debited in error, staff immediately followed up and rectified the situation. In fact, once the system balances were corrected in Munis, six months of bank reconciliations were printed, reviewed and signed off.

On January 1<sup>st</sup> the Community Services Department implemented a new software, Perfect Minds, as well as a new credit card provider for this system, Moneris. This system had many flaws and the Finance staff were unable to access any information or credit cards reports until April of 2017. After a complete review of the system and in coordination with the system vendors Finance staff was able to identify the problems with the system. Those errors began to be rectified in early July of 2017 and each month's bank reconciliation was completed and signed off in the subsequent two months. It must be noted that every other balance was matched prior to the reviewed dates as noted in the prior paragraph.

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

**2017-02:**        *Segregation of Duties between the Payroll System and the Personnel Database*

**Criteria:**        Employees that process payroll should not have the ability to alter any data in the Personnel Database. In the case they need access even if temporarily, all changes made to the Personnel Database should be reviewed by an employee who does not process payroll.

**Condition:**      The City's current practice is to have a designated employee in the Human Resources Department make all changes to the Personnel Database. These changes are then reviewed by the Finance employees who process payroll.

During our interview with Financial Services personnel, we noted that an employee who processes payroll has full access to the Personnel Database including the ability to set up new employees and change pay rates.

**Cause:**            We were informed by the City that, in practice, the Finance employees that process payroll do not alter data in the Personnel Database and that the City has just switched to a new payroll system and is in the process of determining which combination of restrictions are feasible.

**Effect:**            By having the same employee that processes payroll also have the ability to make changes to the personnel database, there is a higher risk that ghost employees and unauthorized pay increases, payroll benefits, and vacation accruals may occur.

**Recommendation:**    As Finance implements its new payroll system, consideration should be given that changes to the Personnel Database should be reviewed by an employee who does not have access to process payroll. Also, employees who process payroll should not have the ability to set up new employees.

**Management's Response:**    Finance staff successfully worked with the financial system provider, Tyler-Munis, to configure the payroll clerk's role in the financial system so that she no longer has access to add or alter information in the Personnel Database. Additionally, the Financial Services Manager, who reviews and posts the payroll to the financial system, also no longer has access to alter or add information to the Personnel Database.

Human Resources staff are the only employees that enter information into the Personnel Database. Paper transaction forms are completed and then routed to various staff for review and approval before the information is entered and posted to the database by the Human Resources Department. The department is currently in the process of automating paperless personnel transactions processing in Munis. When the process is fully automated, information will be entered directly into Munis by various departments/staff requesting transactions and then be routed for review and approvals within Munis before final posting to Munis by Human Resources personnel.



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SCHEDULE OF OTHER MATTERS

**2017-03:**        *Deletion of Terminated Employees Computer Access Rights*

**Criteria:**        The removal of computer access to terminated employees should be completed timely. The Information Technology (IT) department should be notified by the Human Resources department when an employee is terminated, to ensure computer access is disabled immediately.

**Condition:**      As part of our testing of IT controls, we selected 5 terminated employees and noted the following:

- One of the five former employees still had computer access
- Two of the five employees did not have their computer access removed *timely* because the Information Technology department was not notified by the Human Resources department.

**Cause:**            It appears this was caused by staff oversight.

**Effect:**          Terminated employees who still have computer access to the City's network may have the ability to manipulate City data.

**Recommendation:**    We recommend that the City staff formalize a process that includes prompt notification of terminated employees from the Human Resources department to the IT department.

**Management's Response:**    Human Resources and IT staff implemented a formal automated system in August 2017 for termination notifications. In the new process a termination transaction is submitted into Munis that starts a workflow that sends an auto-notification into the Information Technology work order system. Previously, IT was notified by monthly email (more frequently when applicable); which brought inconsistencies and oversights.

CITY OF PLEASANTON  
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SCHEDULE OF OTHER MATTERS

**2017-04:        *Upcoming Governmental Accounting Standards Board (GASB) 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 2017-18:**

***GASB 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment 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 post-employment 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.

***GASB 85 – Omnibus 2017***

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

**Effective in fiscal year 2018-19:**

***GASB 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.

**Management's Response:**        The City is aware of these new pronouncements and will implement them if applicable.

## REQUIRED COMMUNICATIONS

To the City Council  
of the City of Pleasanton, California

We have audited the basic financial statements of the City of Pleasanton for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *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 the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

- GASB 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*
- GASB 74 - *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*
- GASB 77 - *Tax Abatement Disclosures*
- GASB 80 - *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*

The following pronouncement became effective and required modifications to the notes to the required supplementary information:

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

#### *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 estimates affecting the City's financial statements were:

*Estimated Fair Value of Investments:* As of June 30, 2017, the City held approximately \$201 million of cash and investments measured at fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.

*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 1.J. 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.

*Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1.K. to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Claims Liabilities:* Management's estimate of the claims liabilities payable is disclosed in Note 7 to the financial statements and is based on actuarial studies determined by a consultant, which are based on the claims 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 Net Pension Assets and Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension assets and liabilities and deferred outflows/inflows of resources are disclosed in Note 10 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 Net OPEB Liability:* Management's estimate of the net OPEB liability is disclosed in Note 11 to the financial statements and is based on actuarial study determined by a consultant, which is 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.

### ***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. All requested audit checklist items were provided timely except for capital assets activity that were not reconciled and posted until after audit fieldwork commenced.

### ***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. The following material misstatements detected as a result of audit procedures were corrected by management: GASB 68 pension-related entries.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

### ***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 8, 2017.

### ***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 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.

**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 accompany 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 statements or to the financial statements themselves.

We were engaged to report on the Introductory and Statistical Sections which accompany the financial statements, but are not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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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.



Pleasant Hill, California  
December 8, 2017