

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

This Page Left Intentionally Blank

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

For The Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Other Matters.....	3
Status of Prior Year Significant Deficiencies	5
<i>Required Communications</i>	7
Significant Audit Findings:	
Accounting Policies	7
Unusual Transactions, Controversial or Emerging Areas	7
Accounting Estimates	8
Disclosures	8
Difficulties Encountered in Performing the Audit.....	8
Corrected and Uncorrected Misstatements.....	8
Disagreements with Management.....	9
Management Representations	9
Management Consultations with Other Independent Accountants	9
Other Audit Findings and Issues	9
Other Information Accompanying the Financial Statements.....	9

This Page Left Intentionally Blank



MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Hayward, California

In planning and performing our audit of the basic financial statements of the City of Hayward 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.

Maze & Associates

Pleasant Hill, California
December 6, 2017

This Page Left Intentionally Blank

CITY OF HAYWARD

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking effect in the next two 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]).

GASB 86 – *Certain Debt Extinguishment Issues*

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

CITY OF HAYWARD

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

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.

CITY OF HAYWARD

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES**2016-01 Access to Vendor and Employee Databases**

Criteria: To maintain internal control, employees involved in payroll and disbursement processing should not have editing rights to the employee and vendor databases. Access to these databases should be granted on an as-needed basis.

Condition: During our audit, we reviewed the financial system access log and noted that two employees who processed payroll also had access to the employee database. In addition, we noted that several employees, who were not responsible for processing payroll or disbursements, were granted access to the employee or vendor database.

Effect: Unauthorized changes to the databases may occur and not be detected in a timely manner.

Cause: In the City's general ledger system, employees who process payroll must have "full access" function and process payroll, including access to the employee database. There are several employees who have access to employee and vendor database because of the nature of their functions.

Recommendation: The City should review the access of the financial system. Access to the databases should only be granted if necessary, and to employees who cannot process transactions in the respective modules. In June, 2016, the City created controls to monitor for any changes in the vendor database; the Purchasing Manager receives notification anytime a change is made to the vendor database.

Current Status: Recommendation implemented.

2015 – 01: Timeliness of Bank, Investment, and Escrow Accounts Reconciliations and Journal Entries Posting

Criteria: Reconciliations of bank, trustee, and investment accounts should be completed after each month-end and promptly after receipt of the account statements. In addition, amounts reported in the quarterly Investment Reports should correspond with the City's general ledger.

Additionally, journal entries and relevant supporting documentation relating to the reconciliation of these accounts should be maintained and posted in a timely manner.

Condition: During the interim phase of the City's Financial Statement audit, conducted in June 2015, we noted the following:

Many of the City's bank, investment, and trustee accounts were not reconciled to the monthly statements and in a timely manner. In addition, reviews of the reconciliations were not timely.

The City's Investment Report for the quarter ending March 31, 2015 did not match the amounts in the City's general ledger.

CITY OF HAYWARD

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR
SIGNIFICANT DEFICIENCIES

We tested forty journal entries in the current fiscal year and noted that five journal entries were not posted to the general ledger within thirty days from the time of preparation. In addition, there was one journal entry that did not have appropriate supporting documentation.

Effect: Errors, mistakes and unauthorized transactions may not be detected and remedied in a timely fashion.

Cause: The City encountered a combination of difficulties in the past few fiscal years, including the citywide financial system conversion, as well as key staffing changes and shortages.

Current Status: Recommendation implemented.

2014 – 02: Accurately and Timely Reconciliations of Bank, Investment, and Escrow Accounts

Criteria: Bank account reconciliations are an important element of the City's internal control structure. Bank reconciliations should be completed after each month-end and usually within 30-45 days of receipt of the bank statements, and subsequently reviewed in a timely manner for accuracy. The investments and trustee accounts should also be reconciled to statements and the general ledger on a monthly basis in order to maintain effective controls.

In addition, for monitoring purposes, both the preparer and the reviewer of the reconciliation should sign the date the document to leave a proper audit trail.

Condition: During the year, many of the City's bank, investment, and trustee accounts were not reconciled to the monthly statements in a timely manner. In addition, reviews of the reconciliations were not timely. In testing of the reconciliation items, the City could not provide supporting documents to some of the items. Also, there were reconciliation items that have been outstanding since 2013 that should have been booked by the City into its general ledger. In addition, we found that the City's Investment Report for the quarter ending March 31, 2014 did not agree to the City's general ledger.

Effect: The City's book balances of the above accounts did not reflect the correct balances during the year. Errors, mistakes and unauthorized transactions in these accounts would not be detected and remedied in a timely fashion.

Cause: The City encountered a combination of difficulties in the past few years, including the financial system conversion, staff changes, and shortages. The City is currently in the process of training new staff to take over the reconciliation duties.

Current Status: Recommendation implemented.



REQUIRED COMMUNICATIONS

To the City Council of
the City of Hayward, California

We have audited the basic financial statements of the City of Hayward 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 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*

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: Cash and investments held by the City at June 30, 2017 were measured by 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 5 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.

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 12 to the financial statements and are based on actuarial studies determined by California Public Employees Retirement System and GASB 67/ 68 Pension Accounting Reports, 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.

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.

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. 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.

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 6, 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 not 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 them.

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.

Maze & Associate

Pleasant Hill, California
December 6, 2017