SAN MATEO COUNTY HARBOR DISTRICT

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2017

This Page Left Intentionally Blank

SAN MATEO COUNTY HARBOR DISTRICT

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2017

Table of Contents

This Page Left Intentionally Blank

MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the Board of Commissioners of
the San Mateo County Harbor District,
South San Francisco, California

In planning and performing our audit of the basic financial statements of the San Mateo County Harbor District (District) 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 District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist and that were not identified. 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control included on the Status of Prior Year Material Weaknesses as items 2016-01, 2016-02, 2016-04 and 2016-05 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Status of Prior Year Significant Deficiencies as item 2016-06, 2016-07 and 2016-08 to be a significant deficiency.

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.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

This communication is intended solely for the information and use of management, Board of Commissioners, 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.

Pleasant Hill, California
DATE

SCHEDULE OF OTHER MATTERS

2017-01: <u>Review of Accounts Payable</u>

<u>Criteria:</u> It is necessary for accounts payable batches to be reviewed and approved before they are posted to the General Ledger, and monthly reconciliation between accounts payable sub ledger and General Ledger should be performed to ensure the accuracy of processing disbursements.

<u>Condition:</u> It was noted that the Accounting Manager signed off on each disbursement request forms, and reviewed the check run total, but was not reviewing the GL. Additionally; accounts payable was able to post directly into the GL after entering disbursements in the accounts payable module in Fundbalance.

<u>Cause:</u> The District is limited in staff, and the task transition between the new Accounting Manager and the former Accounting Manager was done with a short timeframe therefore task handover was not thorough performed. As of result, accounts payable batches were not reviewed before they are posted to the General Ledger.

<u>Potential Effect:</u> Accounts payable batches posted to General Ledger without proper review and approval can cause a potential risk of improper processing disbursements due to processing errors, unauthorized transactions, and unauthorized adjustments to the general ledger.

<u>Recommendation:</u> Accounts payable batches should be reviewed and approved before they are posted to General Ledger. As our discussion with the District at the time of audit, the new Accounting Manager will review an individual accounts payable processing and accounts payable batch reports before they are posted to General Ledger. It appears that the District will perform accounts payable processing efficiency.

<u>Management's Response:</u> This gap in Accounts Payable review was discovered and rectified in July 2017 when the District implemented a more thorough review process of AP runs, which includes tying out control totals, documenting disbursement approvals from all managers, and documenting and signing off on the new Accounting Manager's review process. Furthermore, the District has changed the internal control settings in Fund Balance so that the Accounting Technician that is responsible for AP can no longer post directly to the General Ledger after entering disbursements. The posting of AP is now done by the Accounting Manager after reviewing and approving each individual AP run.

2017-02: <u>Upcoming Governmental Accounting Standards Board Pronouncements</u>

Effective Fiscal Year 2017/18

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

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.

SCHEDULE OF OTHER MATTERS

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan*s, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

DEFINED BENEFIT OPEB

Defined Benefit OPEB That Is Provided through OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria

For OPEB that is administered through a trust that meets the specified criteria, requirements differ based on the number of employers whose employees are provided with OPEB through the OPEB plan and whether OPEB obligations and OPEB plan assets are shared by the employers. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit OPEB through single-employer OPEB plans—OPEB plans in which OPEB is provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit OPEB through agent multiple-employer OPEB plans—OPEB plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

Measurement of the OPEB Liability to Employees for Benefits

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

The total OPEB liability generally is required to be determined through an actuarial valuation. However, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, use of a specified alternative measurement method in place of an actuarial valuation is permitted. An actuarial valuation or a calculation using the specified alternative measurement method of the total OPEB liability is required to be performed at least every two years, with more frequent valuations or calculations encouraged. If an actuarial valuation or a calculation using the alternative measurement method is not performed as of the measurement date, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date. For purposes of evaluating the benefit terms, consideration is required to be given to the written plan document, as well as other information, including other communications between the employer and employees and an established pattern of practice with regard to the sharing of benefit-related costs with inactive employees. Certain legal or contractual caps on benefit payments to be provided are required to be considered in projections of benefit payments.

This Statement requires that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates future compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic, also are required to be included in the projections. This Statement also requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on the benefit payments.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

This Statement requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the first period in which the employee provides service under the benefit terms, through the period in which the employee exits active service.

SINGLE AND AGENT EMPLOYERS

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net OPEB liability. The net OPEB liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year (the measurement date), consistently applied from period to period.

The OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB that are required to be reported by an employer primarily result from changes in the components of the net OPEB liability—that is, changes in the total OPEB liability and in the OPEB plan's fiduciary net position.

This Statement requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For example, changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in OPEB expense immediately. Projected earnings on the OPEB plan's investments also are required to be included in the determination of OPEB expense immediately.

In circumstances in which the net OPEB liability is determined based on the results of an actuarial valuation, the effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period.

Under all means of determining the net OPEB liability, the effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning in the current period.

Changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

Employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources.

In governmental fund financial statements, a net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

Notes to Financial Statements

This Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also are required to disclose information that includes the following, as applicable:

- For the current year, sources of changes in the net OPEB liability
- Significant assumptions and other inputs used to calculate the total OPEB liability, including those about inflation, the healthcare cost trend rate, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- The date of the actuarial valuation or calculation using the alternative measurement method used to determine the total OPEB liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the OPEB plan, and information about the purchase of allocated insurance contracts, if any.

Required Supplementary Information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net OPEB liability
- The components of the net OPEB liability and related ratios, including the OPEB plan’s fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

If an actuarially determined contribution is calculated for a single or agent employer, the employer is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. If a single or agent employer does not have information about an actuarially determined contribution but has a contribution requirement that is established by statute or contract, the employer is required to present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the OPEB plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, are required to be presented as notes to required supplementary information. In addition, the employer is required to explain certain factors that significantly affect trends in the amounts reported in the schedules.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan)—the collective net OPEB liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan are determined. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

In addition, the effects of (1) a change in the employer's proportion of the collective net OPEB liability and (2) differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. These effects are required to be recognized in the employer's OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees). The portions of the effects not recognized in the employer's OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective net OPEB liability also are required to be reported as deferred outflows of resources related to OPEB.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the OPEB plans through which the OPEB is provided. Cost-sharing employers are required to identify the discount rate and assumptions made in the measurement of their proportionate shares of net OPEB liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also are required to disclose information about how their contributions to the OPEB plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net OPEB liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the OPEB plan, and related ratios.

Defined Benefit OPEB That Is Provided through OPEB Plans That Are Not Administered through Trusts That Meet the Specified Criteria

For employers that provide insured benefits—defined benefit OPEB through an arrangement whereby premiums are paid or other payments are made to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the OPEB of those employees—this Statement requires recognition of OPEB expense/expenditures equal to the amount of premiums or other payments required in accordance with their agreement with the insurance company. In addition to the amount of OPEB expense/expenditures recognized in the current period, a brief description of the benefits provided through the arrangement is required to be disclosed.

For defined benefit OPEB, other than insured benefits, that are provided through OPEB plans that are not administered through trusts that meet the specified criteria, this Statement requires an approach to measurement of OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB parallel to that which is required for OPEB provided through OPEB plans that are administered through trusts that meet the specified criteria. Similar note disclosures and required supplementary information are required to be presented. However, the requirements incorporate modifications to reflect the absence of OPEB plan assets for financial reporting purposes.

DEFINED CONTRIBUTION OPEB

This Statement requires an employer whose employees are provided with defined contribution OPEB to recognize OPEB expense for the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the OPEB liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to (or benefit payments through) a defined contribution OPEB plan. In governmental fund financial statements, OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to (or benefit payments through) an OPEB plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. An OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan are required to include descriptive information about the OPEB plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

SPECIAL FUNDING SITUATIONS

In this Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for providing certain forms of financial support for OPEB of the employees of another entity. Relevant forms of financial support are contributions directly to an OPEB plan that is administered through a trust that meets the specified criteria, including benefit payments as OPEB comes due for OPEB provided through such a plan, or making benefit payments directly as the OPEB comes due in circumstances in which OPEB is provided through an OPEB plan that is not administered through a trust that meets the specified criteria. Such support is a special funding situation if either (1) the amount of contributions or benefit payments, as applicable, for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to the OPEB or (2) the nonemployer entity is the only entity with a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as OPEB comes due, as applicable.

This Statement requires an employer that has a special funding situation for defined benefit OPEB to recognize an OPEB liability and deferred outflows of resources and deferred inflows of resources related to OPEB with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective OPEB expense, as well as additional OPEB expense and revenue for the OPEB support of the nonemployer contributing entities. This Statement requires that the employer disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach that is required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit OPEB is similar to the approach required for cost-sharing employers.

The information that is required to be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net OPEB liability that it recognizes. In circumstances in which a governmental nonemployer contributing entity recognizes a substantial proportion of the collective net OPEB liability, requirements for note disclosures and required supplementary information are similar to those for cost-sharing employers. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net OPEB liability.

This Statement also establishes requirements related to special funding situations for defined contribution OPEB.

Effective Date

This Statement is effective for fiscal years beginning after June 15, 2017.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.

- Explanations of how and why the OPEB liability changed from year to year will improve transparency.

- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.

- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms

- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

GASB 81 – ***Irrevocable Split-Interest Agreements***

The objective of this Statement is to improve accounting and 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.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

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.

Effective Date

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

How the Changes in This Statement Improve Financial Reporting

This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

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]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

EFFECTIVE 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.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

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. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

How the Changes in This Statement Will Improve Financial Reporting

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government’s fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

2016-01: <u>Bank and Investment Reconciliations</u>

<u>Criteria:</u> Bank reconciliations are an important element of the District's internal control structure. In order to have an effective control, the District should complete bank reconciliations as soon as possible after each month-end, usually within thirty days of receipt of statements, and subsequently reviewed for accuracy. Errors and un-reconciled differences should be researched, understood and corrected immediately, so as to prevent additional errors and a decrease in efficiency.

<u>Condition:</u> During our testing of the June 30, 2016 Bank and Investment Reconciliations, we noted the reconciliations contained no signature or date documentation to show when the document was prepared or reviewed or by whom.

<u>Cause:</u> Due to transitions in District personnel, as well as an increase in workload for the District's limited staff, the District has fallen behind in in its standard practices and procedures.

<u>Potential Effect:</u> Errors, misstatements or unauthorized activities in the reconciliations will not be detected or corrected promptly if they are not being prepared and reviewed in a timely manner.

<u>Recommendation:</u> The District should ensure bank reconciliations are reviewed in a timely manner (within 30 days), and that evidence of the date the reconciliations were prepared and reviewed is noted on the reconciliations.

<u>Management's Response:</u> In April 2017, with the addition of the Accounting Manager, the District has implemented additional month-end close procedures which include the timely review of bank statements and bank reconciliations. Since then, the District has implemented a procedure to reconcile and review operating bank accounts timely. Additionally, the District has required the preparer (Accountant) and reviewer (Accounting Manager) to sign off on the documents to show an adequate audit trail of the timely preparation and review of these workpapers.

2016-02: <u>Journal Entry Process</u>

<u>Criteria:</u> Journal entries are an important transaction cycle that affects all aspects of accounting and financial reporting. To maintain financial reporting accuracy, it is prudent that journal entries are prepared and reviewed by two separate employees and that this segregation of duties is evidenced by employee sign-offs.

<u>Condition:</u> During our review of the District's internal control procedures over the journal entry process, it appears there was an overall lack of evidence of review (signature or initial sign-off) on the face of the original entry. In addition, there appeared to be no evidence of employee sign-off by the final poster of the entry to the general ledger. While it is the District's practice to review each entry, the system does not prevent one employee from performing the preparation, review, and posting of a journal entry and without physical evidence of employee sign-off, there is no audit trail for proper segregation of duties.

<u>Potential Effect:</u> A lack of evidence of preparation and review as well as a failure to implement sufficient segregation of duties over the journal entry cycle increases the chances of errors or misstatements going uncorrected, and even undetected, in a timely manner.

<u>Cause:</u> The District has experienced significant staff and management turnover in recent years which has created a backhaul of work due to the limited amount of staff.

Recommendation: We recommend that all journal entries be posted and reviewed by two separate employees and that evidence of the preparation, review and posting be documented via employee signature or initial.

Management's Response: In April 2017, with the addition of the Accounting Manager, the District has implemented additional internal control procedures in the journal entry process. Fund Balance (the District's accounting and general ledger software) can limit specific software functions to certain users. In May 2017, the District reviewed and made changes to user profiles so certain profiles can only initiate journal entries (Accountant, Accounting Technician) and certain profiles can only post journal entries (Accounting Manager, Super User). This ensures that at a minimum of two separate employees are involved in the recordation of all journal entries. Additionally, the District has updated internal journal entry forms to include date and signature fields so that evidence of the preparation, review, and posting is documented for every journal entry. As of 3/29/18, the District has made further changes to security settings in Fund Balance to ensure that the Accountant and Accounting Technician can only initiate journal entries and the Accounting Manager and Super User can only post journal entries.

2016-03: Compliance with Fixed Asset System Policy & Inventory Control

Criteria: The District's Fixed Asset System Policy requires an inventory of current fixed assets to be completed at least on an annual basis. Physical inventories are essential to ensure capital asset records are complete and accurate and physical assets are adequately safeguarded.

Condition: The District had not performed a physical inventory of its fixed assets for at least five years. In May 2017, the District performed an inventory of its fixed assets and identified required restatements in order to accurately and appropriately state year-end balances:

- Asset items were incorrectly double-booked
- Valuation adjustments were required as a result of a work-study performed in 2012
- Useful life adjustments were required in order to accurately categorize asset-types in accordance with the District's capitalization policy.

In addition, the District's Fixed Asset System Policy requires various asset classifications to be depreciated over specified useful lives. We noted these useful lives were not being consistently applied to recorded assets.

Potential Effect: The District's fixed asset balances were overstated, and without adequate and frequent physical inventory/reconciliation of assets, there is an increased risk that the District's fixed asset records may be inaccurate.

Cause: The District is limited in staff, and has been unable to perform physical inventories due to day-to-day operations taking priority.

Recommendation: As fixed assets are the District's most material financial statement line item, we recommend the District perform annual inventories of its fixed assets to ensure the asset balances are accurately reported. We also recommend the District consistently review its depreciation policy to ensure assets are being depreciated over the appropriate useful life.

Management's Response: In fiscal year 2016-17 the District performed a physical inventory and reconciliation of its fixed assets. Going forward, the District will continue to perform a physical inventory and reconciliation of its fixed assets on an annual basis, per the District's Fixed Asset System Policy. The District will also ensure that all new fixed assets will adhere to the schedule of useful lives to consistently classify asset categories.

The District is confident that with the addition of several administrative staff in fiscal year 2016-17, communication between the Finance and Operations Departments will increase and the District will be better at identifying fixed asset additions and dispositions in recurring discussions with Operations and its ongoing Accounts Payable process. As of 3/29/18 these discussions have been taking place with the Director of Operations on a quarterly basis, and the District plans to perform a physical inventory of assets at year-end in June 2018.

2016-04: Super User Rights

Criteria: A system super-user is an individual who has full access over the District's financial system including all modules and all functions. This type of access should be limited to as few people as possible. If possible, super-user rights should be removed from Finance Department staff.

Condition: We noted that Administrative Services Director and Accounting Manager have super-user rights to the general ledger, which includes unlimited access to the accounting system modules and security settings. In addition, the Accounting Manager also performs the duties of reviewing accounts payable, uploading positive pay to the bank and preparing bank reconciliations.

Potential Effect: When accounting staff have super-user rights, there is a potential risk of restricting or allowing access to other users' abilities to access the different modules in the accounting system (i.e. unauthorized adjustments can be made to the general ledger). In addition, unauthorized transactions could be processed without proper review and approval.

Cause: The District is limited in staff, and therefore it is necessary for someone to have the access to perform system maintenance duties.

Recommendation: The District should review the necessity of granting any employee the super-user rights to the financial system. For any module within the financial system that these employees do not need to edit, their access should be limited to read-only. The *"Super"* username should be password limited to employees who do not perform everyday accounting processes or be granted to third party contractor only for maintenance purposes only.

Management's Response: In May 2017, the District reviewed and made changes to Fund Balance user profiles for internal control purposes (see 2016-02, above). Previously, the password to the Super User account was known by several employees. The password was changed so that a minimal number of employees had access to the account. The Director of Administrative Services and the General Manager have access to the Super User account. Two employees with access are necessary because Fund Balance will periodically have a system error in which a user is locked out of the system. The Director of Administrative Services (or General Manager as backup) will reset the individual's user account with the Super User account. These errors occur about once per week. As of 3/29/18, the Super User changes are still in effect and having the Director of Administrative Services and the General Manager with Super User access has been effective in mitigating finance staff lockout of Fund Balance.

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

2016-05: Cash Collection Review Process

Criteria: A complete reconciliation of the daily total cash and checks collected including the prepared deposit slips should be performed by an employee independent of the cash collection process. Additionally, reconciliations should be reviewed by an employee other than the preparer and there should be an audit trail for when the review takes place.

Condition: During our review of the District's internal control procedures for the cash receipt collection cycle, it appears there was an overall lack of evidence of review (signature or initial sign-off) on the face of the cash receipt packets. In addition, there appears to be no evidence that the review included the reconciliation of all carbon copies of receipts issued to customers.

Potential Effect: A lack of evidence of preparation and full review as well as a failure to implement sufficient segregation of duties over the cash collection cycle increases the chances of errors, misstatements going uncorrected and risk that cash collections may be lost or stolen.

Cause: The District has experienced significant staff and management turnover in recent years which has created a backhaul of work due to the limited amount of staff, it appears. Also, it appears District staff was not aware that a more thorough review of cash collected by a second party was necessary.

Recommendation: We recommend the District implement a more thorough review process, in which a second employee reviews all carbon copies of receipts during the reconciliation of cash and checks collected by marina staff, prior to bank deposit. In addition, we recommend the second employee physically indicate their review via sign off.

Management's Response: Beginning in fiscal year 2017-18 the District will perform reviews of all carbon copies of receipts during the reconciliation of cash and checks collected on at least a quarterly basis. In May 2017, the District implemented procedures to collect sign offs on daily cash batch forms which indicate two independent reviewers of the daily cash batches. The Accountant (1st reviewer) reviews the daily cash batch and initiates a journal entry into the GL. The Accounting Manager (2nd reviewer) reviews the cash batch and posts the journal entry to the GL. As of 3/29/18, reviews of carbon copies of receipts have not occurred due to time constraints, but the District plans to perform a review before fiscal year-end.

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2016-06: Credit Card Procurement Policy Compliance

Criteria: The District's Purchasing Procedures Policy for District credit cards states that use of the cards should be used for purchases of $500 or less and that Requisition forms should be properly completed prior to use of credit cards.

Condition: During our testing of the credit card Requisition forms we noted the following:

- Several Requisition forms were filled out and signed off as used and approved by the same individual.
- Some Requisition forms had no indication of any sign off by an authorized approver.
- One Requisition form was noted to be for a purchase of over $500.
- One Requisition form appeared to have been completed after the credit card had already been used.

Potential Effect: The District is not in compliance with its Purchasing Procedures Policy.

Cause: The District staff is not completing the Requisition forms in accordance with the Purchasing Procedures Policy. Furthermore, it appears that 18 of the District's 29 staff members have credit cards making it harder to delegate proper use of the cards and follow all the required requisition procedures.

Recommendation: The District should limit the number of credit cards to select staff members who can then delegate the use of the cards to other staff. The District should also update its credit card policy if it intends to allow purchases to exceed the maximum transaction limit of $500 for emergency purposes. The District staff should follow the requirements required by the Purchasing Procedures Policy for the use of credit cards.

Management's Response: In fiscal year 2017-18 the District will enforce its Purchasing Procedure to ensure Requisition forms are being signed-off by proper individuals and completed prior to the purchase being made. The District will update the policy as necessary if certain cardholders require more than $500 per purchase and will research into whether our credit card vendor is able to restrict purchases greater than $500.

The District does have more credit cards in circulation than necessary, which is further evidenced by the lack of monthly activity by each cardholder. The District intends to reduce the amount of credit cards in fiscal year 2017-18 while providing suitable alternatives to purchasing (such as invoicing or opening accounts on credit with authorized purchasers at specific vendors) so that day to day operations are not affected. As of 3/29/18 to reduce the amount of credit cards with District employees, the District is currently in the process of setting up credits on account with specific vendors. Once these are in place the District will transition cardholders to purchase goods with our credits on account.

2016-07: Payroll Review Process

Criteria: Payroll registers should be prepared and reviewed by two separate individuals and there should be an audit trail indicating the process took place. In addition, any changes made to the employee database should be reviewed and kept for the finance records.

Condition: During our review of payroll registers for the periods ending February 20, 2016 and December 12, 2015, there is no indication that they were being reviewed by the Administrative Services Director. Furthermore, it is not part of the District's practice to maintain records for changes made to the employee database.

Potential Effect: A lack of evidence of preparation and review as well as a failure to maintain sufficient records changes increases the risk of errors, misstatements, or unauthorized activities going uncorrected or undetected in a timely manner.

Cause: The District is limited in staff and has been unable to document review of the payroll process and keep records for audit evidence.

Recommendation: We recommend that the District establish procedures to clearly indicate the segregation of preparer and reviewer on payroll registers. Furthermore, the District should have an employee, who does not have access to the employee database, review pay rate changes and new employee set up to ensure that changes made are as authorized and maintain these changes in the respective personnel files.

Management's Response: Beginning in April 2017, the District implemented procedures to document evidence of preparation and review in the payroll review process. The Accountant prepares payroll workpapers (biweekly, which includes payroll registers) and inputs the payroll data into ADP for payroll processing. The payroll workpapers include a report that indicates all personnel changes made to ADP during the pay period, including changes made by employees themselves. The Accountant signs off as a preparer on the workpapers, then submits them to the Accounting Manager for review. The Accounting Manager reviews the payroll workpapers, reviews all payroll changes made, signs off on them, and then reviews the payroll data in ADP for accuracy. Once the review is complete the Accounting Manager will process the payroll batch in ADP, which completes the payroll cycle. As of 3/29/18 in addition to the above review process, the District has been saving documentation of signed-off copies of the payroll documents used to support each pay period.

2016-08: Updated Signature Cards

Criteria: Signature cards should be updated immediately when there is a change in authorized signers.

Condition: During our review of the bank and investment accounts, we noted the District had not updated its signature cards for LAIF to remove the former District Treasurer.

Potential Effect: Having former/inactive employees listed as authorized users increases the risk of unauthorized activities going uncorrected or undetected in a timely manner.

Cause: This appears to have been an oversight by management caused by an increased workload on a limited finance staff.

Recommendation: We recommend the District review its signature cards to ensure all authorized users are current and active employees of the District.

Management's Response: As of July 2017, the District has made changes to its signature cards to include only current/active employees and/or current/active commissioners. No former/inactive employees or commissioners are listed on the signature cards. Going forward, the District intends to make these changes immediately if an authorized user separates from the District. As of 3/29/18 all signature changes were made following the Board Meeting in which position changes were effective.

REQUIRED COMMUNICATIONS

To the Board of Commissioners of
the San Mateo County Harbor District
South San Francisco, California

We have audited the basic financial statements of the San Mateo County Harbor District (District) 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.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District 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:

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

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 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. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The pronouncement became effective, but did not have a material effect on the financial statements or the footnotes. It only affected the Pension-related Required Supplementary Information.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the District 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.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W mazeassociates.com

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 District's financial statements were:

> *Estimated Fair Value of Investments:* As of June 30, 2017, the District held $17.4 million of cash and investments as 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 1.E. to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is somewhat 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. 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 Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 7 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the District. 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 Termination Benefits:* Management's estimate of the termination benefits is disclosed in Note 8 to the financial statements and is based on a manual calculation determined by the District, which is based on the experience of the District. 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 Board of Commissioners.

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 DATE.

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 District'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 District'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.

******

This information is intended solely for the use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Pleasant Hill, California
DATE