



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE, AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** November 14, 2019

Approved

Date

11-14-19

**SUBJECT: EXTERNAL AUDITOR'S REPORT: REPORT TO THOSE CHARGED  
WITH GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2019**

## RECOMMENDATION

Accept the draft Report to Those Charged with Governance for the year ended June 30, 2019 as issued by Macias Gini & O'Connell LLP, the City's external auditor and refer the Final Report to the December 10, 2019 City Council Meeting for full Council acceptance.

## OUTCOME

Provide overview of the recommendations from the external auditors on the City's internal control over financial reporting and compliance for the fiscal year 2018-19 to the Public Safety Finance & Strategic Support Committee ("PSFSS").

## BACKGROUND

Historically, the Single Audit Report is presented to the City Council concurrently with the Comprehensive Annual Financial Report (CAFR) and the Report to Those Charged with Governance ("Report"). The Single Audit is still being prepared and it is anticipated that the final report will be issued in January or February 2020. An informational memo will be prepared for the City Council at the completion of the Single Audit which will highlight any audit findings and will include a link to the final report.

## **ANALYSIS**

Attached for the PSFSS Committee's review is the draft Report to Those Charged with Governance for the year ended June 30, 2019.

### **Report to Those Charged with Governance**

During the course of the audit, the Auditor conducted a limited examination of the City's internal controls and management practices. The Auditor looked for material weakness or reportable conditions that would require immediate disclosure to the City Council in accordance with generally accepted auditing standards. A deficiency 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.

- Material weakness is a deficiency 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
- Significant deficiency is less severe than a material weakness, yet important enough to merit attention by those charged with governance
- Control deficiency is the least severe deficiency in that potential misstatements are not material. Control deficiencies still warrant identification and remediation

As listed below, the Auditor's Report to Those Charged with Governance for fiscal year ended June 30, 2019 contains one material weakness and one significant deficiency. One of the findings from last year has been partially implemented and the remaining four findings from the prior fiscal year have been implemented. The finding 2019-002 in the Report (Completeness of the Schedule of Expenditures for Federal Awards) is not related to a program deficiency nor does it constitute a violation of the federally-funded grant covenants. This finding is specifically to internal controls over financial reporting, and not a federal awards compliance finding.

Staff's responses to the Auditor's findings and other communications are included in the attached report. Finally, the Auditor's Report also reports a status of prior year findings for the Committee's consideration, all of which have been implemented, with partial implementation of last year's recommendation on the completeness of the schedule of expenditures of federal awards which is included as a significant deficiency in this year as well.

<b>Reference Number and Comments</b>	<b>Material Weakness</b>	<b>Significant Deficiencies</b>	<b>Control Deficiencies</b>
2019-001 Internal Controls Over the Financial Reporting Process	X		
2019-002 Completeness of the Schedule of Expenditures of Federal Award		X	

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### **CONCLUSION**

The draft Report to Those Charged with Governance provides recommendations from the external auditors on the City's internal control over financial reporting and compliance for the fiscal year ended June 30, 2019 to the PSFSS Committee, the final Report will be presented to the Council at their December 10, 2019 meeting.

### **EVALUATION & FOLLOW-UP**

No additional follow-up actions with the City Council are expected at this time.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum and the draft CAFR will be posted on the City's website for the November 21, 2019, PSFSS Committee meeting and final Report and final CAFR will be posted to the City's website for the December 10, 2019, City Council meeting.

### **COORDINATION**

The departments to which the comments in the Report apply have reviewed the comments and their responses have been incorporated into the Report.

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

HONORABLE MAYOR AND CITY COUNCIL

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**CEQA**

Not a Project, File No. PP10-169 (a), City Organizational & Administrative Activities.

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Julia H. Cooper, Director of Finance, at (408) 535-7011.

Attachment