

# City of San Mateo

San Mateo, California

*Auditors' Communication with  
Those Charged with Governance*

*For the year ended June 30, 2010*

December 10, 2010

To the Honorable Mayor and Members of City Council  
of the City of San Mateo  
San Mateo, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Mateo (City) for the year ended June 30, 2010, and have issued our report thereon dated December 1, 2010. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 29, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City's compliance with those requirements.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated March 29, 2010.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practice*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted new accounting policies during 2010:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* - This Statement establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Investments Valuations
- Net Pension Obligations
- Net Other Post-employment Benefits (OPEB) Obligation
- Landfill Obligation
- Accrual for Workers' Compensation, Dental and General Liability

The disclosures in the financial statements are transparent, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Summary of Significant Accounting Policies - Note 1
- Cash and Investments - Note 2
- Notes and Loans Receivable - Note 4
- Capital Assets - Note 7
- Long-Term Debt - Note 8
- Employee Retirement Plans - Note 12
- Other Post Employment Benefits - Note 13
- Commitments & Contingencies - Note 15

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatement

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The list of corrected misstatements are presented at the end of the Management Representations letter attached.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 1, 2010. A copy is attached for your information.

### 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" in 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.

To the Honorable Mayor and Members of City Council  
of the City of San Mateo  
San Mateo, California  
Page 4

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 of our retention.

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

*Capricci & Larson, Inc.*

San Francisco, California



CITY OF SAN MATEO  
Finance Department

330 WEST 20TH AVENUE  
SAN MATEO, CA 94403-1388  
TELEPHONE: (650) 522-7100  
FAX: (650) 522-7101

December 1, 2010

Caporicci & Larson, Inc  
101 Montgomery Street, Suite 1900  
San Francisco, CA 94104

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Mateo, California (City) as of June 30, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 1, 2010, the following representations made to you during your audit(s).

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
  - a) Financial records and related data
  - b) Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

- 5) We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.
- 6) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 7) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 8) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 9) We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
- 10) We have a process to track the status of audit findings and recommendations.
- 11) We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
- 12) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 13) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 14) The following, if any, have been properly recorded or disclosed in the financial statements:
  - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the City is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
- 15) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other

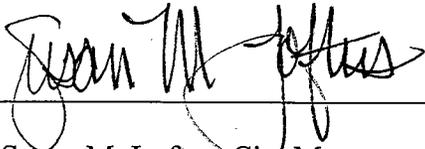
financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

- 16) There are no—
  - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with ASC “Contingencies” (formerly SFAS 5).
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC “Contingencies” (formerly SFAS 5).
  - d) Reservations or designation of fund equity that were not properly authorized and approved.
- 17) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 18) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 19) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 20) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 21) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 22) The financial statements properly classify all funds and activities.
- 23) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 24) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
- 25) Provisions for uncollectible receivables have been properly identified and recorded.

- 26) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 27) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 28) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 29) Special and extraordinary items are appropriately classified and reported.
- 30) Deposits and investment securities are properly classified as to risk, and investments are properly valued.
- 31) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
- 32) Required supplementary information (RSI) is measured and presented within prescribed guidelines.
- 33) With respect to federal award programs:
  - a) We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
  - b) We have, in accordance with OMB Circular A-133, prepared the schedule of expenditures of federal awards, and have included in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
  - c) We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
  - d) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.

- e) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- f) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g) We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- h) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j) We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- l) We have charged costs to federal awards in accordance with applicable cost principles.
- m) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- n) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- o) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- p) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- q) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

- r) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
  - s) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
- 34) No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements

Signed:   
Title: Susan M. Loftus, City Manager

Signed:   
Title: David P. Culver, Finance Director

Attachment: Adjusting Journal Entries 2009-2010

**Summary of Audit Differences**  
**Fiscal Year Ended June 30, 2010**

Uncorrected Audit Differences

None

Corrected Audit Differences

JE	Fund	Account Description	DR	CR
#1	10	Cash Expenditure	202,015	202,015
	81	Expenditures Cash	202,015	202,015
		To record expenditures in the proper fund		
#2	10	Taxes Receivables Property Tax Revenues	386,000	386,000
		Deferred Revenues Taxes Receivables	1,124,116	1,124,116
		Photo Copy Receivables Other Revenues	78,049	78,049
		Photo Copy Other Revenues	25,901	25,901
		Cash Interest / Gain on Investment Transfer Out	192,836	5,973 186,883
	88	Interest / Gain on Investment Cash	5,793	5,793
	24	Transfer In Cash	186,883	186,883
		To reverse tax revenue from prior year		
#3	59	Accounts Payables Prepays	103,585	103,585
		To correct amounts improperly recorded to prepays		

#4	10	Cash	74,395	
		Cash		74,395
	18	Cash	20,405	
		Cash		20,405
No financial statement impact				
#5	10	Due From Other Funds	105,955	
		Cash		105,955
	24	Cash	105,955	
		Due to Other Funds		105,955
To adjust due to/from fund balances				
#6	10	Cash	38,000	
		Salaries Expenditures		38,000
	57	Salary Expenditures	30,000	
		Cash		30,000
	25	Salary Expenditures	8,000	
		Cash		8,000
To properly record salary expenditures in the correct fund				
#7	59	Loan Receivable	3,426,572	
		Deferred Revenue		3,426,572
	29	Deferred Revenue	3,426,572	
		Loan Receivable		3,426,572
To properly record loan receivable and deferred revenue in the correct fund				
#8	29	Deferred Revenue	51,500	
		Loans Receivable		51,500
To correct outstanding loan balances				