

RESOLUTION NO. 2016-14

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA RECEIVING AND FILING THE CITY OF MARINA AUDITOR'S GOVERNANCE LETTER (SAS 114), CITY AUDITOR'S MANAGEMENT LETTER OF COMMENTS (SAS 112) FOR THE FISCAL YEAR ENDED JUNE 30, 2015 STATING THE IMPORTANCE OF THE ACCOUNTING SERVICES MANAGER POSITION OVER INTERNAL CONTROLS

WHEREAS, after each fiscal year independent auditors examine and test the underlying controls, fiscal records and financial transactions from which the City's and Agency's Annual Financial Reports are prepared, and issue their opinion on the basic financial statements contained in the reports, and;

WHEREAS, the City independent auditors, Mann Urrutia Nelson CPAs performed these tasks and issued an unqualified ("clean") opinion, and;

WHEREAS, professional standards require that the auditors provide the City two additional letters, specifically the "Governance Letter (SAS 114)" and "Management Letter of Comments (SAS 112)," and;

WHEREAS, the Governance Letter (SAS 114) ("**Exhibit A**") includes discussion regarding the auditors' responsibility, City accounting practices, difficulties and/or disagreements encountered, corrected and/or uncorrected misstatements, management representation, management consultation with other independent accountants and other audit findings or issues. Nothing adverse was noted in the letter, and;

WHEREAS, the Management Letter of Comments (SAS 112) ("**Exhibit B**") includes suggestions for improvements to the City's internal controls over stale-dated checks and information technology general controls, and;

WHEREAS, specifically, the auditors states "Throughout our audit it was evident that staffing resources in the finance department are at a low level and could contribute to deficiencies in the internal control system over financial reporting, potentially affecting the City's ability to properly segregate duties such as bank reconciliations and transactions. A managerial/supervisory position would be optimal in improving the internal control environment." Further, the auditors commented on cash disbursements with inadequate authorization, delayed payroll review and inadequate information technology controls.

NOW, THEREFORE IT BE RESOLVED, that the City Council of the City of Marina:

1. Receive and file City of Marina Auditor's Governance Letter (SAS 114), City Auditor's Management Letter of Comments (SAS 112) for the fiscal year ended June 30, 2015.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 17th day of February 2016, by the following vote:

AYES: COUNCIL MEMBERS: Amadeo, Brown, Morton, O'Connell, Delgado

NOES: COUNCIL MEMBERS: None

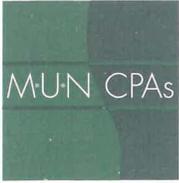
ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk



January 6, 2016

To the City Council
City of Marina, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Marina for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Marina 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 2015. We noted no transactions entered into by City of Marina during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates 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 estimate(s) affecting the City's financial statements were:

Management's estimate of the depreciation allowance for uncollectible receivables and the liability for Other Post-Employment Benefits is based on the city's capitalization policy. Management's estimate for the allowance for uncollectible receivables is based on management's specific identification of loans with long-term deferrals and non-current payments. Management's estimate of the liability for Other-Post Employment Benefits is based on actuarially determined information. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

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 the management representation letter dated January 6, 2016.

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 City of Marina'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 City of Marina'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 Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Budgetary Schedules, which are required supplementary information (RSI) that 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Combining Financial Schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

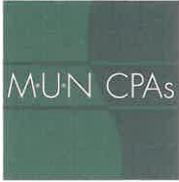
Restriction on Use

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

Very truly yours,



Mann, Urrutia, Nelson CPAs & Associates, LLP



MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

Management Letter

January 6, 2015

To City Council
City of Marina, California

In planning and performing our audit of the financial statements of the City of Marina as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Marina's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of matters that present opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 6, 2015 on the financial statements of the City of Marina.

We will review the status of these comments during our next audit engagement. We have already discussed the comment and suggestion with City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in blue ink that reads "Mann Urrutia Nelson CPAs".

Mann, Urrutia, Nelson CPAs and Associates LLP

**CITY OF MARINA
MANAGEMENT LETTER COMMENTS
AND RECOMMENDATIONS FOR STRENGTHENING INTERNAL CONTROLS
JUNE 30, 2015**

Throughout our audit it was evident that staffing resources in the finance department are at a low level and could contribute to deficiencies in the internal control system over financial reporting, potentially affecting the City's ability to properly segregate duties such as bank reconciliations and transactions. A managerial/supervisory position would be optimal in improving the internal control environment. The finance department is aware of the issues noted below; however, the lack of resources has prevented them from implementing such control recommendations.

Accounts Payable

During our testing cash disbursements, we noted two checks over \$5,000 that were missing the City Manager's signature. We recommend that the City adhere to the City's check policy that all checks over \$5,000 are signed by the City Manager.

Payroll

During our testing of payroll controls we noted that there is no written indication of payroll approve. We recommend that the Finance Director review the ADP Statistical Summary report and sign for approval closer to the payroll processing date.

Information Technology General Controls

The City should implement a formal IT strategic planning and risk management process to periodically monitor and assess potential vulnerabilities within the IT control environment. The City should engage individuals with requisite knowledge of IT risks and controls and should address the following risk areas, where applicable:

- Physical and logical access to programs and data
- User access rights for segregation of duties. User access reports should be reviewed monthly.
- Environmental controls for IT infrastructure (e.g. data centers, servers, firewalls, network)
- Business continuity, disaster recovery, and data backup
- Incident management
- Program change control
- Systems acquisition and development
- Documented IT policies including policy for data backup and disaster recovery

Through the evaluation of periodic monitoring and reporting of IT risks, management can make informed decisions to strengthen IT controls to mitigate threats and vulnerabilities to IT systems.

To strengthen the controls over perimeter and network security we recommend that City of Marina perform security checks. There are several subscription based services that will perform campaigns to test the security of the system. knowbe4.com is a website that is commonly used to test cyber security. Additionally, the City of Marina should consider having a full-time staff to support the IT workload.

February 8, 2016

Agenda Item: **8f(1)**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting of
February 17, 2016

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2016-,
RECEIVING AND FILING CITY OF MARINA AUDITOR
GOVERNANCE LETTER (SAS 114), CITY AUDITOR
MANAGEMENT LETTER OF COMMENTS (SAS 112) FOR FISCAL
YEAR ENDED JUNE 30, 2015 STATING THE IMPORTANCE OF
THE ACCOUNTING SERVICES MANAGER POSITION OVER
INTERNAL CONTROLS**

REQUEST:

It is requested that the City Council consider:

1. Adopting Resolution No. 2016- receiving and filing City of Marina auditor governance letter (SAS 114), City auditor management letter of comments (SAS 112) for fiscal year ended June 30, 2015 stating the importance of the Accounting Services Manager Position over internal controls.

BACKGROUND:

After each fiscal year, independent auditors examine and test the underlying controls, fiscal records and financial transactions from which the City's and Agency's Annual Financial Reports are prepared, and issue their opinion on the basic financial statements contained in the reports. The City independent auditors, Mann Urrutia Nelson CPAs performed these tasks and issued an unqualified ("clean") opinion for the financial reports of fiscal year ended June 30, 2015.

Professional standards require that the auditors provide the City two (2) additional letters, specifically the "Governance Letter (SAS 114)" and "Management Letter of Comments (SAS 112)."

ANALYSIS:

The Governance Letter (SAS 114) includes discussion regarding the auditors' responsibility, City accounting practices, difficulties and/or disagreements encountered, corrected and/or uncorrected misstatements, management representation, management consultation with other independent accountants and other audit findings or issues ("**EXHIBIT A**"). Nothing adverse was noted in the letter.

The Management Letter of Comments (SAS 112) includes suggestions for improvements to the City's internal controls ("**EXHIBIT B**"). Specifically, the auditors states "Throughout our audit it was evident that staffing resources in the finance department are at a low level and could contribute to deficiencies in the internal control system over financial reporting, potentially affecting the City's ability to properly segregate duties such as bank reconciliations and transactions. A managerial/supervisory position would be optimal in improving the internal control environment." Further, the auditors commented on cash disbursements with inadequate authorization, delayed payroll review and inadequate information technology controls.

FISCAL IMPACT:

None

CONCLUSION:

This request is submitted for the City Council consideration and possible action.

Respectfully submitted,

Lauren Lai, CPA
Finance Director
City of Marina

REVIEWED/CONCUR:

Layne Long
City Manager
City of Marina