



November 19, 2015

To the Honorable Mayor and Members of the City Council  
City of Riverside, 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 Riverside, California (the City) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 letters to you dated September 8, 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 the City are described in Note 1 to the financial statements. As discussed in Notes 15 and 18 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective July 1, 2014. The implementation of these Statements resulted in restatements of net position of certain opinion units as of July 1, 2014, as listed in Note 18 to the basic financial statements. Our opinions were not modified with respect to this matter. In addition, the City implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. However, implementation of this Standard did not materially impact the City. The application of existing policies was not changed during 2015.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable assets
- Accrual and disclosure of pension benefits and other postemployment benefits
- Accrual and disclosure of risk management liabilities which includes workers' compensation and general liabilities.
- Allowances for uncollectible amounts.
- Interest rate swaps fair values.

Management's judgments and estimates were based on the following:

- Useful lives for depreciable assets were determined by management based on the nature of the capital assets.
- Accrual and disclosure of pension benefits and other postemployment benefits are based on the actuarial studies performed by an independent actuary.
- Risk management liabilities were based on actuarial reports performed by independent actuaries utilizing assumptions approved by City Council.
- Allowances for uncollectible amounts were based on collection rates of similar-type revenues.
- Fair values were based on valuation reports performed by an independent valuation specialist.

We evaluated the key factors and assumptions used to develop each of the above accounting estimates in determining they are 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 November 9, 2015.

#### *Management Consultations with Other Independent Accountants*

In some cases, management mCay decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

As a result of our audit, we identified a certain deficiency in internal control that we determined did not constitute a significant deficiency or material weakness. We have included this item as Attachment A to this letter.

#### Other Matters

We applied certain limited procedures to the management's discussion and analysis, and information related to the pension and other postemployment benefit plans 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 the combining and individual nonmajor fund financial statements, budgetary comparison schedules and schedules of expenditures, 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.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

#### Restriction on Use

This information is intended solely for the use of the Finance Committee, Mayor, 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.

Very truly yours,

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, CA



To the Honorable Mayor and Members of the City Council  
City of Riverside, California

In planning and performing our audit of the financial statements of the City of Riverside, California (the City) 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's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of a deficiency in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding this matter. We previously communicated to you about the City's internal control in our letter dated November 9, 2015, which contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated November 9, 2015, on the financial statements of the City.

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

This communication is intended solely for the information and use of management, the Mayor, Members of the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than those specified parties.

### **Other Control Deficiency**

The following is a description of another identified control deficiency that we determined did not constitute a significant deficiency or material weakness:

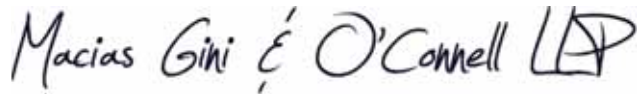
#### **Internal Service Fund Deficit**

**Comment:** The City's Self-insurance Trust internal service fund has a fund deficit of \$27,551,000 as of June 30, 2015. The deficit has increased from \$21,739,000 as of June 30, 2013 and \$26,904,000 as of June 30, 2014, respectively. By definition, an internal service fund is operated on a cost-reimbursement basis. For an internal service fund to operate on a cost-reimbursement basis, its charges to other funds should result in revenues and expenses that are approximately equal over time, even though it may periodically report annual increases or decreases in net position. Because the intent of internal service funds is to facilitate cost allocation, the accumulation of net position surpluses or deficits over time generally indicates that service is no longer being made on a cost-reimbursement basis.

**Recommendation:** We recommend the City reassess the cost allocation methodology of the Self-insurance Trust internal service fund so that the user funds or departments are charged the appropriate amount that covers the cost of providing the respective services.

**View of Responsible Officials and Planned Corrective Action:** The negative fund balances in the Workers Compensation and General Liability funds reflect the long term nature of the associated claim liabilities. While sufficient cash exists in any given year to fully pay that year's claims, this cash is insufficient to fully cover the entire long term liabilities in these funds. Such full funding may not be financially prudent given other priorities of the City.

Management is currently evaluating an appropriate level of funding for these liability funds, based on best practices and input from the Third Party Administrators and City Attorney. Once a recommended level of funding is determined, it will be formalized in a policy approved by the City Council. This will occur in Fiscal Year 2015-2016.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, California  
November 19, 2015