

CITY OF GARDEN GROVE, CALIFORNIA

**Report to the Honorable Mayor and
Members of the City Council**

For the Year Ended June 30, 2015



Certified
Public
Accountants

CITY OF GARDEN GROVE, CALIFORNIA

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To the Honorable Mayor and
Members of the City Council
City of Garden Grove, California

In planning and performing our 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 Garden Grove, California (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 our auditing procedures 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Management's written response to the internal control deficiency identified during our prior audit is described in the Status of Prior Year Recommendations section. We did not audit management's response and, accordingly, we express no opinion on the response.

Additionally, we have included in this letter a summary of communications with the Honorable City Mayor and Members of the City Council as required by professional standards. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The accompanying communications and recommendations are intended solely for the information and use of management, the Honorable City Mayor and Members of the City Council, and others within the City, and are not intended to be and should not be used by anyone other than these specified parties.

Macias Gini É O'Connell LEP

Newport Beach, CA
December 22, 2015

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Report to the Honorable City Mayor and Members of the City Council
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REQUIRED COMMUNICATIONS

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 the City of Garden Grove (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 during our meeting on May 6, 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 A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended June 30, 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
- Accrued compensated absences
- Risk management liabilities which include workers compensation and general liabilities
- Postemployment benefit obligation

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
- Accrued compensated absences were based on a fringe benefit rate applied to all labor charges.
- Risk management liabilities were based on an actuarial report performed by an independent actuary.
- Postemployment benefit obligation was based on an actuarial report.

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We evaluated the key factors and assumptions used to develop the estimates described above in determining that 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.

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. The following information summarizes uncorrected misstatements of the financial statements:

| Adjustment No. | Opinion Unit | Account Description | Debit | Credit |
|-----------------------|--------------------------|---|--------------|---------------|
| 1 | Government-Wide | <i>Capital Assets - Depreciable</i> | 4,672,549 | |
| | Government-Wide | <i>Capital Assets - Construction in Progress</i> | | 4,672,549 |
| | Government-Wide | <i>Net Position, Beginning</i> | 219,505 | |
| | Government-Wide | <i>Accumulated Depreciation</i> | | 219,505 |
| | Business-Type Activities | <i>Capital Assets - Depreciable</i> | 29,297,261 | |
| | Business-Type Activities | <i>Capital Assets - Construction in Progress</i> | | 29,297,261 |
| | Business-Type Activities | <i>Net Position, Beginning</i> | 1,841,648 | |
| | Business-Type Activities | <i>Accumulated Depreciation</i> | | 1,841,648 |
| | Water Fund | <i>Capital Assets - Depreciable</i> | 19,674,802 | |
| | Water Fund | <i>Capital Assets - Construction in Progress</i> | | 19,674,802 |
| | Water Fund | <i>Net Position, Beginning</i> | 1,622,980 | |
| | Water Fund | <i>Accumulated Depreciation</i> | | 1,622,980 |
| | Sewer Fund | <i>Capital Assets - Depreciable</i> | 9,622,459 | |
| | Sewer Fund | <i>Capital Assets - Construction in Progress</i> | | 9,622,459 |
| | Sewer Fund | <i>Net Position, Beginning</i> | 218,668 | |
| | Sewer Fund | <i>Accumulated Depreciation</i> | | 218,668 |
| | | To record the estimated correction of capital assets balances that were placed into service prior to July 1, 2014, and not moved to a depreciable asset category. These amounts were corrected as part of the fiscal end June 30, 2015 activities. | | |

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Management has determined that their effects are immaterial, both individually and in the aggregate, to the 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 December 22, 2015.

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 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.

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Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedules of funding progress of the public employees' retirement system and the postemployment benefits, and budgetary comparison information, 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.

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.

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CURRENT YEAR RECOMMENDATIONS

FS-2015-01: CAPITAL ASSETS: Completion of Capital Projects

Condition

Generally accepted accounting principles require that assets be considered depreciable when placed into service.

Condition

During our review of capital assets, we noted several assets were placed into service in a prior year; however, these were not transferred in the accounting records to a depreciable asset category in the year placed into service. In addition, depreciation on those assets placed into service but not transferred was not being booked, thus understating depreciation expense at July 1, 2014.

Effect

As a result of the preceding misstatement noted during the audit, management performed an additional analysis of open capital projects to identify and value the effect of similar errors.

Recommendation for Corrective Action

We recommend that the City review and evaluate its current policies and procedures related to capital asset accounting and implement revisions to the definition assets placed into service, to ensure that capital assets are timely captured in the appropriate category (depreciable and non-depreciable) and depreciation is reported in the correct period. In addition, training should be provided to the departments and individuals that manage capital asset projects, including engineering to ensure compliance with the new policies and procedures and accurate reporting of capital assets.

Views of Responsible Officials

We agree with the auditor finding and going forward, we will be identifying and reclassifying assets from CIP to a major asset class when a project is substantially completed. We have met with Public Works to delineate and define what substantial completion of capital projects means and will meet with them quarterly to review all projects in construction.

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STATUS OF PRIOR YEAR RECOMMENDATIONS

Reference No.

FS-2011-3

**Information Technology Development and
Implementation Strategy**

Status: In-process. The SWOT Analysis and Strategic Plan was presented to the IT Committee and Central Management. Other than supplementary budget issues, which will be addressed in the next fiscal year, the analysis and plan were accepted. The status of this recommendation is complete.

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