

CITY OF HEALDSBURG
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2019

CITY OF HEALDSBURG
June 30, 2019

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February 29, 2020

Honorable Mayor and Members of the City Council
City of Healdsburg
Healdsburg, 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 Healdsburg (City) as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated February 28, 2020. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, 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 10, 2019. 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. We noted no transactions entered into by the City during the fiscal 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 financial statements were the estimated historical cost and useful lives of certain capital assets, the funding progress and net pension liability of the CalPERS pension plan, the Other Post-employment Benefits (OPEB) actuarial values, the collectability of receivables (including accounts and notes receivable) and claims payable. Management's estimates of the estimated historical cost and useful lives of certain capital assets are based on historical data and industry guidelines, while the funding progress and net pension liability of the CalPERS pension plan and the OPEB actuarial values are based on third party actuarial estimates. The amount of estimated collectability of receivables is based on historical data and the estimated claims payable is based on a third party consultant's estimates. We evaluated the key factors and assumptions used to develop these estimates and determined 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 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, two of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. These adjustments were for net pension liability and interest receivable.

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 a 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 February 28, 2020.

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.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of the Plan's Proportionate Share of the Net Liability and Related Ratios as of Measurement Date – Miscellaneous Plan, the Schedule of Contributions – Miscellaneous Plan, and the Schedule of Funding Progress for Post-Employment Benefits Other than Pensions, 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 the supplementary information accompanying the financial statements, 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.

Restrictions on Use

This information is intended solely for the use of management, the audit committee, the members of City Council, and others within the City, and is not intended to be, and should not be, used by anyone other these specified parties.

Moss, Levy & Hartzheim

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Culver City, California



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of City Council
City of Healdsburg, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Healdsburg, California (City), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit 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.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

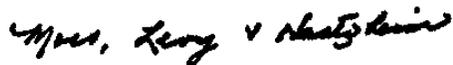
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did note certain other matters that we felt needed to be disclosed to management in the following section as #2019-01 and #2019-2.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Moss, Levy & Hartzheim, LLP
Culver City, California
February 28, 2020

CURRENT YEAR RECOMMENDATIONS

Other Matters

2019-01 Finding – Deficiencies in City credit card use

During our test of credit card payments, we noted two (2) instances when individual credit card statements were not signed signifying review and approval by a department head or the finance department.

Effect:

When there is a lack of review and approval of employee credit cards, misappropriations could occur and go on occurring without detection.

Recommendations:

We recommend that the finance department ensure that all credit card statements are reviewed and approved in accordance with City policies and procedures.

Management's response:

The City agrees with the Auditor's recommendation. It is the City's policy that both the cardholder and the approver review and approve credit card charges. All credit cards holders, approvers and the finance department have been counseled as to the requirement.

2019-02 Finding – Deficiencies in cash disbursements:

During our test of cash disbursements, we noted that on 1 out of 40 disbursement reviewed, the City overpaid the invoice by paying the tax amount twice.

Effect:

The City overpaid a vendor and the error was not identified and rectified in a timely manner.

Recommendations:

We recommend that the finance department ensure that all disbursements are approved, and that all supporting documentation is obtained, retained and defaced in a uniform manner in accordance with City policies and procedures.

Management's response:

The City agrees with the Auditor's recommendation. Since this occurrence, an additional review has been put in place to confirm the accuracy of the disbursements.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Other Matters

2018-01 Finding – Community Service Facility Rentals Fees:

During our review of the City's process for reserving and collecting rental fees to rent various facilities managed by the Community Services Center, we found that the same individual responsible for collecting payments also maintains the facility rental calendar.

Effect:

Because there does not appear to be an independent reconciliation of the revenues collected to the facilities rented, facilities could be rented without a corresponding cash receipt recorded in the City's accounting records.

Recommendations:

Therefore, we recommend the City determine what controls could be implemented to ensure that all facilities rented have a corresponding cash receipt.

Current Status:

Implemented.

2018-02 Finding – Meal Purchases with City Credit Card:

During our review of credit card activity, we found that various City employees travel for conferences, training, etc. Employees use the City's credit card to purchase hotel rooms and meals while traveling on City business. The City has developed various policies for traveling and use City credit cards, however, it does not appear that a reconciliation of meals purchased with the applicable per diem rates is being performed to ensure all meal purchases are within current per diem rates as required by the City's travel policies. As a result, it appears there is no independent verification to determine if the traveling employees are complying with the City's travel policies.

Effect:

If there is no reconciliation of amounts charged on City credit cards by employees while traveling on City business to adopted City policies, there is a potential for charges to exceed City policies and go unnoticed.

Recommendation:

Therefore, we recommend the City implement procedures to reconcile the per diem rate with the actual charges for employee meals while traveling on City business. The City should also consider whether more detailed and updated policies should be implemented.

Current Status

Implemented.