

CITY OF SAN JOSE

Report to Those Charged  
with Governance

For the Year Ended  
June 30, 2016

CITY OF SAN JOSE  
Pedestrian/Bicycle Facilities For the Year Ended  
June 30, 2016

**Table of Contents**

	<b><i>Page</i></b>
Required Communications	3
Internal Control Matters	5
Material Weakness	6
Appendix A – Schedule of Material Misstatements	8



Management and City Council  
City of San José, California

Grant Thornton LLP  
150 Almaden Boulevard, Suite 600  
San Jose, CA 95113-2015  
T 408.275.9000  
F 408.275.0582  
www.GrantThornton.com

Ladies and Gentlemen:

In connection with our audit of the financial statements of the Pedestrian/Bicycle Facilities Grant (the “Grant”) made to the City of San José, California (“City”), by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III, as of and for the year ended June 30, 2016, auditing standards generally accepted in the United States of America (“US GAAS”) and Government Auditing Standards issued by the Comptroller General of the United States (GAGAS) require that we communicate the following information related to our audit to management and City Council (hereinafter referred to as “those charged with governance”).

## Responsibilities

### Our responsibilities

We are responsible for:

- Performing audits under US GAAS of the financial statements prepared by management, with your oversight
- Forming and expressing opinions about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Communicating specific matters to you

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letters including communications required by US GAAS and GAGAS. We have also communicated information about our audit plan to the City in our communication from August 2, 2016.

### Those Charged with Governance and Management responsibilities

Those Charged with Governance (City Council):

- Overseeing the financial reporting process

- Setting a positive tone at the top and challenging the City's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Objectives and strategies and related business risks that may result in material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your related oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

#### Management:

- Preparing and fairly presenting the financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations
- Complying with laws and regulations on for grant awards and designing effective internal control to ensure compliance

## Audit Scope

### Materiality

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark. We believe that total revenue is the appropriate benchmark for the Grant. Items greater than

materiality are in scope. Other areas less than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).

## Quality of accounting practices

### Accounting policies

Accounting policies are consistently and appropriately applied. The significant accounting policies are disclosed in the financial statements.

### Management consultation with other independent accountants

In some cases, management may decide to consult with other accountant about auditing and accounting matters to obtain a second opinion. 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 financial statements, our professional standards require the consulting accountant to communicate with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultation with other accountants.

### 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 no such disagreements arose during the course of our audit.

## Internal Control Matters

In connection with our audit of the Grant made to the City by the Metropolitan Transportation Commission, Transportation Development Act Funds, Article III, as of June 30, 2016 and for the year then ended, US GAAS require that we advise City Council (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

### Our responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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 express no such opinion on internal control effectiveness.

### Identified deficiencies in internal control

We identified the following internal control matter that are of sufficient importance to merit your attention.

### Material Weakness

A deficiency in internal control (“control deficiency”) 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 Grant’s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was not designed to identify all deficiencies in internal control that, individually or in combination, might be material weaknesses or significant deficiencies, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we consider the following identified control deficiency to be material weakness.

### **Finding 2016-001 Lack of detailed reviewed over reimbursements made and received**

#### **Criteria**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). This includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Condition**

The City’s preparation of the financial statements for the Pedestrian/Bicycle Facilities Grant is the responsibility centralized within the Finance Department who compiles and verifies financial data and US GAAP application decisions maintained by the transportation department.

The City requested and received from the Metropolitan Transportation Commission (“MTC”), reimbursement for the same expenditure twice. In another instance, the City had received a reimbursement of \$83K from MTC but did not reduce accounts receivable for that receipt.

#### **Cause**

Lack of review of expenditures submitted for reimbursement against items previously expensed and requested and review receivables against cash receipts received during the year.

#### **Effect or Potential Effect**

The first error overstated grant revenue by \$33K and the second error overstated accounts receivable. Management has since corrected both errors in the financial statements. Errors such as those noted above are a risk in the current environment.

**Management Response (Unaudited)**

The City concurs with the finding. The City has already contacted the Metropolitan Transportation Commission (“MTC”) in regards to the overpayment of grant revenue. An outcome of this discussion with MTC would most likely allow the City to offset the overpayment against reimbursements to be received in the grant period covering year 2017. The City is committed to improving its internal expenditure and revenue tracking sheets to minimize risk of incorrect invoice claims being submitted to MTC. In an effort to reduce future occurrence of duplicate or incorrect claim submissions, the City will continue to improve upon its staff training to know the program specific requirements and restrictions and emphasize the importance of accurate financial reporting requirements.

**City's response**


The City's written response (Views of Responsible Officials) to the internal control matters identified herein have not been subjected to our audit procedures and, accordingly, we express no opinion on it.

\* \* \*

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

Very truly yours,

GRANT THORNTON LLP



December 20, 2016  
San José, California

## Appendix A – Schedule of Material Misstatements

Description	Amount		Increase (decrease) to		
	DR (CR)	Assets	Liabilities	Fund Balance	Change in Fund Balance
<u>Material Adjustments - Fund 465</u>					
<b>1</b>					
Due to Other Funds	33,642		(33,642)		
Due from MTC	(33,642)	(33,642)			
Grant Revenues	33,642			(33,642)	(33,642)
Expenditures	(33,642)			33,642	
<i>To remove duplicate reimbursement request.</i>					
<b>2</b>					
Accounts Payable	6,701		(6,701)		
Due from MTC	(6,701)	(6,701)			
Grant Revenues	6,701			(6,701)	(6,701)
Expenditures	(6,701)			6,701	
<i>To remove invoice that was included in AP &amp; Due to Other Funds</i>					
		\$ (40,343)	\$ (40,343)	\$ -	\$ (40,343)