

HAYES MANSION CONFERENCE CENTER
(An Activity of the City of San José)

Report to the City Council

For the Year Ended June 30, 2015



Certified Public Accountants.

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

City Council
City of San José, California

In planning and performing our audit of the financial statements of the Hayes Mansion Conference Center (the Center), an activity of the City of San José (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 Center'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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.

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 be 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.

Additionally, we have included in this letter a report on communications with the City Council as required by auditing standards generally accepted in the United States of America.

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

Macias Gini & O'Connell LLP

Walnut Creek, California
September 29, 2015

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2015

REQUIRED COMMUNICATIONS

We have audited the financial statements of the Hayes Mansion Conference Center (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2015 and have issued our report thereon dated September 29, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have previously communicated such information to you in our Engagement Communication section of our General Audit Plan dated May 25, 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 Center are described in Note 2 to the Center's financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the Center 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 affecting the financial statements was depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property. Management's judgments and estimates were based on the useful lives for depreciable property that were determined by management based on the nature of the capital assets and the straight-line method of depreciation was applied.

We evaluated the key factors and assumptions used to develop the accounting estimate described above in determining that it is reasonable in relation to the Center's financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the use of the enterprise fund presentation for the Center's operations. As more fully described in Note 1 to the financial statements, the Center's financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the City's financial statements that is attributable to the Center's transactions to comply with contractual requirements.

The financial statement disclosures are neutral, consistent, and clear.

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2015

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. None of the misstatements detected as a result of audit procedures were material, either individually or 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 September 29, 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 Center'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 Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2015

SCHEDULE OF COMMENTS AND RESPONSES

Item #2015-01 – Lack of Sufficient Controls Over Certain Year-End Financial Reporting Processes (Significant Deficiency)

During the fiscal year, the Center experienced turnover in its accounting department, and consequently, processes may not have been adhered to throughout the year. In May 2015, the management company of the Center changed and the Center's accounting system was converted to the new management company's system.

As a result of our audit procedures we proposed and the Center corrected the following adjustments:

- An adjustment of approximately \$88,000 to record the cash receipt of a security deposit received prior to June 30, 2015.
- An adjustment of approximately \$110,000 related to reconciliation of cash held by the City.
- An adjustment of approximately \$19,000 to accrue for online booking fees incurred prior to June 30, 2015.

Additionally, we noted that 23 out of the 40 manual journal entries tested did not have evidence of a reviewer/approver prior the posting of the journal entry into the system.

We recommend that the Center re-visit the appropriateness of its accounting procedures as well as its process and internal controls over financial reporting given its new operating environment and management company structure, such that all balances and transactions are properly supported and analyzed before the financial statements are submitted for audit.

Management Response

In May 2015, a new Director of Finance was hired to oversee the accounting and financial reporting functions. The property's current staffing module, now fully staffed, will ensure that processes will be adhered to consistently throughout the year. No departmental turnover is anticipated in the immediate future.

All accounting procedures and financial reporting are given due diligence with the current new operating systems. This includes the review and approval process for the posting of all journal entries. With the centralized AP and Payroll systems implemented, process improvements and efficiencies have already been realized, and internal controls and financial analysis will support the balances and transactions reported. The financial statement, generated via the same operating platform, will facilitate a more efficient audit process for this current fiscal year.

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2015

Management Response (continued)

Adjustments performed:

- Cash receipt \$88K to record the cash receipt of a security deposit received prior to June 30, 2015
 - This transaction was a wire transfer
 - There is an established transaction delay between the bank recognition of receipt of the funds and the property's ability to post such funds
 - The property will proceed accordingly during the month end close and bank reconciliations.
- \$110K related to reconciliation of cash held by the City
 - This transaction is related to the reimbursement of a prior year capital expense acknowledged in Note 3 of the report.
- \$19K accrual for Online booking fees incurred prior to June
 - This transaction is related to the billing cycle of Expedia fees.
 - Our current system knowledge will alleviate this for Year-end.