

**SAN JOSE CONVENTION AND  
CULTURAL FACILITIES**  
(An Activity of the City of San José)

Report to the City Council  
For the Year Ended  
June 30, 2018



Certified  
Public  
Accountants



City Council  
City of San José, California

In planning and performing our audit of the financial statements of the San José Convention and Cultural Facilities (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2018, 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 our 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 those 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.

Walnut Creek, California  
October 29, 2018

# SAN JOSE CONVENTION AND CULTURAL FACILITIES

## Report to the City Council For the Year Ended June 30, 2018

### REQUIRED COMMUNICATIONS

We have audited the financial statements of the San José Convention and Cultural Facilities (the Center), an activity of the City of San José (the City), as of and for the year ended June 30, 2018 and have issued our report thereon dated October 29, 2018. 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 July 18, 2018. 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, 2018. 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 estimates affecting the financial statements were:

- Estimated allowance for losses on accounts receivable, and
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property.

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

- Estimated allowances for losses on accounts receivable were based on historical write-off rates and industry averages, and
- Useful lives for depreciable property 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 estimates described above to determine that they are 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

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financial statements that is attributable to the Center's transactions to comply with contractual requirements. 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 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 the financial statements taken as a whole.

#### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as 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 October 29, 2018.

#### ***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.

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### **REQUIRED COMMUNICATIONS (Continued)**

#### **Other Matters**

With respect to the 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.

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### Status of Prior Year Recommendations

#### Segregation of Duties

Team San José's Chief Financial Officer has administrative access to the Center's financial reporting system, including the ability to create, edit, post, and approve journal entries, which is incompatible with their duties. There are no compensating controls present at the Center that cannot be overridden as the system's audit log can be deleted and the employee is ultimately responsible for the statement of net position reconciliations and financial statements. This increases the risk that changes are made to the financial reporting system or journal entries are recorded without review, and errors are not detected.

#### Recommendations

To mitigate this risk, we recommend that the users with administrative rights be limited to only those who require them to perform their duties. Additionally, we recommend that the duties of senior financial reporting personnel be limited to review and authorization of journal entries, or additional procedures be implemented to provide for the review of journal entries prepared and posted by the senior financial reporting personnel. The Center should have adequate staffing that would ensure segregation of duties and facilitate proper review of journal entry posting.

#### Status

Corrected.

#### Timeliness of Accounting Estimate Input Identification

During the course of our audit, we noticed that the Center had reversed an erroneous over-accrual of a workers compensation liability carried forward from FY16 for \$419,589. This misstatement originated in FY16 when details of an insurance quote were misinterpreted, resulting in the exclusion of a discount factor in the year-end workers compensation liability calculation. The calculation was corrected in FY17 when the final invoice was received with an out-of-period credit to worker's compensation expense. Although the entry did not materially misstate FY16 or FY17 and was related to an estimate, all relevant inputs should have been identified timely through the year-end close process or the monitoring thereof.

#### Recommendations

We recommend Center management strengthen controls around the development and review of estimates to ensure that the calculations, including available inputs and assumptions are reviewed for completeness and accuracy.

#### Status

Corrected.