

HAYES MANSION CONFERENCE CENTER
(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

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 14, 2018.

In planning and performing our audit of the financial statements of the Center, 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.

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

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. We did identify a deficiency in internal control, described in the accompanying schedule of comments and responses that we consider to be a significant deficiency as item 2018-001.

The Center's responses to the comment identified in our audit are described in the accompanying schedule of comments and responses. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Walnut Creek, California
November 14, 2018

HAYES MANSION CONFERENCE CENTER
Required Communications
For the Year Ended June 30, 2018

REQUIRED COMMUNICATIONS

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 communicated such information in our letter to you dated April 7, 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 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 operating transactions of the Center to comply with contractual requirements.

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

HAYES MANSION CONFERENCE CENTER
Required Communications
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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. Management has corrected all such misstatements. In addition, 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 November 14, 2018.

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.

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SCHEDULE OF COMMENTS AND RESPONSES

Comment Item 2018-001: Lack of Sufficient Controls Over Financial Reporting Processes (Significant Deficiency)

The Center has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the Center has implemented internal controls that serve as the first line of defense in safeguarding assets. Additionally, these controls are designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations. The Committee on Sponsoring Organizations of the Treadway Commission (COSO) has established a nationally recognized framework for internal control in its Internal Control – Integrated Framework and its related Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting. The COSO framework establishes five elements of internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk Assessment and Monitoring are integral parts of internal control and management should periodically evaluate the risks and monitor the changes facing the City especially in light of the recent changes in its control environment. This process involves evaluating both previously identified risks and potential new risks and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

As part of our audit procedures, we assess an organization’s environment, risk assessment and monitoring of controls and determine whether internal controls have been effective over financial reporting. If controls do not exist, are poorly designed or not operating effectively, we must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weakness. During our audit we noted the Center experienced turnover or vacancies in the Finance Department. We also noted the Center did not have adequate segregation of duties over the journal entries process.

We recommend that the Center improve its internal controls over the journal entries process by assigning a secondary reviewer of journal entries before these transactions are recorded into the accounting system.

Management Response

The financial statements are reviewed prior to the final closing of the books each month. While during the months of July and August 2017, there were not 2 signatures on every journal entry, all entries were being created and posted by the Accounting Manager and Acting Director of Finance together. During the financial review process, the P&L is scrutinized line by line providing a de-facto review of all journal entries and is signed off by the GM and DOF that it is accurate and complete. Adjusting journal entries are made to re-class or accrue when errors are found.