



SAUSALITO FINANCE COMMITTEE

9:00 A.M. in the Administration Office at the City Hall
at 420 Litho Street, Sausalito, CA

Tuesday, February 17, 2009

9:00 A.M. CALL TO ORDER

A. Attendance

- Mayor Jonathan Leone
- Councilmember Mike Kelly
- City Manager Adam Politzer
- Interim Finance Director Charlie Francis

B. Discussion Item

1. Public Safety Building Budget
 - Staff informed Committee that Bond Accountant from City and Project Manager from Swinerton will reconcile City, Bond, and Construction Management reports to provide for consistent reporting to all internal and external consumers of financial reports.
2. Review 6/30/2008 Auditor Memorandums
 - Finance Committee reviewed and approved the management response to the auditor's memorandum on internal controls and directed staff to submit the management responses to the City Council and to the City Auditor.
 - Finance Committee requested that staff report back on the City's compliance with Payment Card Industry standards for transaction credit card processing across all City vendors.
3. Review 2009-10 Budget Calendar
 - Finance Committee approved staff's budget calendar proposal and directed staff to conduct a mid-year budget review at the March 10, 2009 City Council meeting.
4. Status of TOT Audit Proposal from MuniServices
 - MuniServices representative Marina Sloan is out of the country until March 2 and will be presenting a comprehensive TOT proposal to staff when she returns.
5. Review Finance Committee Minutes



"The City of Sausalito serves its people and promotes creativity in its unique waterfront community."

- **Finance Committee reviewed and approved the minutes from the January 12, 2009 meeting and directed staff to submit to Council.**
6. Review January MTH
- **Finance Committee reviewed and approved the financial reports for the month ended January 31, 2009 and directed staff to submit to Council.**
- C. Set Next Meeting Date**
- **Scheduled for Monday, March 16, 2009 at 9:00 AM (3rd Monday of month)**

D. Adjournment

How to obtain Finance Committee Agendas

Posted Agendas: Agendas are posted at least 72 hours prior to the meeting time at the entrance to the City Hall at 420 Litho Street.

Clerk's Office: Go to the Administration Office at the City Hall at 420 Litho Street, Sausalito.

Special Needs

In compliance with the Americans with Disabilities Act (28 C.F.R. 35.102-35.104, ADA Title 11), if you need special assistance to participate in a City Council meeting, please call 289-4165 or 289-4106. Notification 48 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting



City of Sausalito
420 Litho Street, Sausalito, CA 94965
(415) 289-4100 www.ci.sausalito.ca.us

4/25
2

**CITY OF SAUSALITO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2008**

4B5
3

This Page Left Intentionally Blank

485
4

**CITY OF SAUSALITO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2008

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Other Matters	2
Schedule of Prior Year Other Matters.....	7
<i>Required Communications</i>	11
Financial Statement Audit Assurance.....	11
Other Information Included with the Audited Financial Statements	11
Accounting Policies	11
Unusual Transactions, Controversial or Emerging Areas	12
Estimates	12
Disagreements with Management	12
Retention Issues.....	12
Difficulties	12
Audit Adjustments.....	13
Uncorrected Misstatements	13

485
6

This Page Left Intentionally Blank

YES
7

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

MEMORANDUM ON INTERNAL CONTROL

October 28, 2008

To the City Council of the
City of Sausalito, California

In planning and performing our audit of the financial statements of the City of Sausalito as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 do not express an opinion on the effectiveness of the City's internal control.

A 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted no matters that we consider to be material weaknesses.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the City.

The City's written responses included in this report have not been 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 organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2008-01: Deposits Payable

We inquired about the City's deposits payable and noted the following:

- Deposits payable included many old debit balances which have not been reconciled. These debit balances are mostly from Community Development Department. The City is aware of these debit balances. The City should reconcile and resolve all old outstanding debit balances as soon as possible.
- The City was unable to provide us a current detail listing of deposits payable. To make sure that the City's deposit payables are recorded accurately, and to prevent potential over-payment or under-collection of deposits, the City should keep an up-to-date detail listing of deposits payable.

Management Response:

The City agrees that deposits payable should be reconciled monthly and that an up-to-date detail listing of deposits payable be maintained. Accordingly, as of January 15, 2009 the City has reconciled the old debit balances and has established a procedure for maintaining an up-to-date listing of deposits payable.

2008-02: Information Technology Best Practices

We conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it. We significantly expanded our work from previous years beyond looking solely at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over financial systems. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever increasing sophistication of hackers and criminals.

Currently, there are no Information Technology standards which local governments are required to conform to. Indeed there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments may use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff have reviewed these informal guidelines and concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) are the most appropriate for local government. NIST and FISMA represent the minimum security requirements for federal government agencies information systems. We understand the U.S. Department of Justice recommends these for local governments. Our procedures included performing an external network scan based on NIST criteria and in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

4/15
9

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF OTHER MATTERS

A summary of our results and “best practices” recommendations are as follows:

- *Payment Card Industry Compliance* - Any organization that processes credit cards is required to comply with the Payment Card Industry Data Security Standard (PCI-DSS), even if the processing is outsourced. The standard was developed to minimize the risk of loss due to security breaches in processing credit card transactions. Merchants which conform to the Standard pay lower transaction fees than those that do not comply and they minimize their liabilities which may result from security breaches. The Standard requires varying levels of controls depending on transaction levels. In general, merchants must:
 1. Fill out a self-assessment questionnaire (SAQ).
 2. Submit the SAQ to acquiring banks.
 3. Perform quarterly external network scans and submit the results to acquiring banks.
 4. Have a full independent PCI audit performed by a Qualified Security Assessor (QSA) and submit it to acquiring banks. (Required for level 1 merchants only).

We believe the City qualifies as a Level 3 or 4 merchant due to activity levels of less than 1 million transactions and currently it need only complete and maintain the SAQ in-house. However, we understand SAQ submissions will become mandatory for Level 3 and 4 merchants in the near future. Staff has not completed the SAQ, but should do so and prepare for the submission requirement.

- *Audit/Event Logging* - The City does not appear to have audit logs on the financial application server, such that any change, addition or deletion of user accounts within the application are tracked and monitored. The City should have audit/event logs of any addition, deletion or change in financial application user accounts and that log should be monitored by someone without the rights to effect such changes. In addition, any administrative access such as upgrades or application modifications by IT personnel, outside consultants or vendors should also be logged and reviewed.
- *General Information Systems Controls* - We compared the City’s information systems controls with the various NIST standards and believe improvements should be considered for implementation such as formalizing business continuity plans including alternate processing site locations, contingency planning and training. We provided a detailed report to the City’s IT and Finance Staff which describes the relevant standards and the control status for their consideration.

As noted above, the City is not required to conform to NIST standards and could use another set of guidelines to ensure the adequacy of controls. However, we recommend the City select an appropriate industry standard such as NIST to plan, organize and monitor information security proactively.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF OTHER MATTERS

Management Response:

The City appreciates the comprehensive Information Systems Review performed by the auditor as the City believes that continuous internal control reviews will lead to appropriate business process improvements that optimizes risk against IT application and systems performance.

The following management responses reply to the auditor's observations and comments:

Payment Card Industry (PCI) Compliance – The City has downloaded and reviewed the Payment Card Industry Data Security Standards (PCI-DSS) and agrees that the City should complete and have on file a self-assessment questionnaire (SAQ). The City will monitor PCI-DSS and should SAQ submissions become mandatory for Level 3 and 4 merchants, the City will submit as applicable.

Audit Event logs – The City agrees that changes, additions or deletions of user accounts within the financial application should be tracked and monitored within its financial application software. The City also agrees that optimum IT internal controls suggest that its financial applications logs should be monitored by someone without the rights to effect such changes. In addition, the City accepts that any administrative access such as upgrades or application modifications by IT personnel, outside consultants or vendors should also be logged and reviewed.

Although the City's current version of Springbrook Software (financial application) does not have internal audit/event log functionality, the available updated version of Springbrook Software does have enhanced Audit/Event Log functionality. The City's Strategic Plan anticipates purchasing the upgraded version of Springbrook Software in the future. However, the City has implemented other internal controls to provide for integrity of its data and data access:

1. The City has a Help Desk application that logs and reports all requests for changes, additions or deletions of user accounts within the financial application.
2. The City has a Help Desk application that logs and reports any administrative access requests to upgrade or modify financial applications.
3. The City's has internal control procedures that limit the authority to make changes, additions or deletions of user accounts to employees that do not have rights to effect such changes.
4. The City has internal control document and system review mechanisms that are specifically designed to detect unauthorized changes to critical data.

General Information Systems Controls (GISC) – The City agrees that although there is not an obligation to comply and conform to standards promulgated by the National Institute of Standards and Technology (NIST), continuous business process improvements should always be considered for implementation such as formalizing business continuity plans including alternate processing site locations, contingency planning and training. The City will review the detailed report provided by the auditors that describes the relevant standards and the control status for consideration where applicable.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF OTHER MATTERS

2008-03: Upcoming GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (Effective for fiscal 09/10) - Retroactive Application Required

Governments have different types of intangible assets, such as easements, water rights, patents, trademarks, and computer software. Easements are referred to in the GASB 34 description of capital assets, which has raised questions about whether and when intangible assets should be considered capital assets for financial reporting purposes.

The absence of specific authoritative guidance has resulted in inconsistencies in the recognition, initial measurement, and amortization of intangible assets among governments. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability.

A summary of the statement:

- Intangible assets should be classified, accounted for and reported as capital assets, unless excluded from the scope. Guidance in this statement is in addition to existing capital asset guidance.
- GASB 51 specifically addresses the nature of intangible assets.
 - *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
 - *Nonfinancial nature.* In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
 - *Initial useful life greater than one year.*
- GASB 51 excludes:
 - Assets acquired or created primarily for the purpose of directly obtaining income or profit.
 - Assets resulting from capital lease transactions reported by lessees.
 - Goodwill created through the combination of a government and another entity.
- Recognition of an intangible asset occurs only if it is considered identifiable. That is when either of the following apply:
 - The asset is separable from the government. That is it can be sold, transferred, licensed, rented, or exchanged.
 - The asset arises from contractual or other legal rights, regardless of whether transferable or separable.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF OTHER MATTERS

- Specific conditions must be present to recognize internally generated intangibles. Capitalization of costs begins after all of the following criteria are met:
 - Determination of specific objectives of the project and the nature of the service capacity expected upon the completion.
 - Demonstration of the feasibility that the completed project will provide its expected service capacity.
 - Demonstration of the current intention, ability, and effort to complete or continue development of the intangible asset.
 - Internally generated computer software is used as an example in applying the specific conditions approach.
- Amortization lives are addressed:
 - Limited by contractual or legal provisions.
 - Renewal periods for rights may be considered if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal. Such evidence should consider the required consent of a third party and the satisfaction of any conditions required to achieve renewal.
 - An indefinite life (no amortization) is permitted so long as there are:
 - No limiting legal, contractual, regulatory, technological, or other factors, and
 - No subsequent change in circumstances.
 - A permanent right-of-way easement is an example.

Retroactive Application. For GASB 34 Phase I & II governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980. Retroactive reporting is not required for intangible assets with indefinite useful lives or internally generated intangibles, as of the effective date of this Statement.

Management Response:

The City is aware of all the financial reporting and implementation requirements of GASB 51 and will comply with applicable requirements in the required fiscal year ending June 30, 2010.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

**SCHEDULE OF PRIOR YEAR OTHER MATTERS
PREPARED BY MANAGEMENT**

2007-01 Parking Meter Cash Collections

We reviewed the internal control of certain parking meter collections and noted the following:

- Currently there is one Parking Enforcement Officer. The Officer empties the coins directly from the parking meters and transports the money to the police station storage room for safekeeping. To improve control, the City should consider using parking meters that collect cash in locked bins. This would prevent the Officer from having direct physical access to the coins. Using locked bins would also allow the City to make sure that all locked bins, and therefore all coins, are accounted for.

Current Status:

The City is continually assessing parking meter internal controls. The City also realizes that the cost of implementing a specific internal control should not exceed the expected benefit of the control. The City is also aware that staff size limitations (three Parking Enforcement Officers) combined with the use of mechanical coin-operated parking meters obstructs efforts to properly segregate duties and limit access to assets.

Therefore, the City has previously implemented and currently uses the following compensating controls:

- 1) The procedures for parking meter activities in the City police department specify those individuals authorized and responsible for storing parking meter cash in the property room.
- 2) Controls over the collection process include using a special fastener with a seal that is properly controlled to secure the cash collections.
- 3) The City is currently considering upgrades to its parking meters and downtown parking situation including but not limited to locked bins, and electronic parking meters with data intensive software systems.
- 4) Meter collections are performed in a timely manner – at least, once weekly during the off-season and up to four times weekly during the peak-parking season.
- 5) The Police Department has reasonable standards for parking meter failures and timely service repair.

The City has previously recommended and is currently considering the following improvements to its internal controls:

- 1) The City is currently considering upgrades to its parking meters and downtown parking situation including but not limited to locked bins, and electronic parking meters with data intensive software systems.
- 2) The City is constructing a new police station and a room has been identified solely for the purpose of parking meter management.
- 3) The City is exploring obtaining coin sorting and coin counting machines to facilitate recording, depositing and reconciling the collection of coins and ensuring their automating entries into the accounting system.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

**SCHEDULE OF PRIOR YEAR OTHER MATTERS
PREPARED BY MANAGEMENT**

- The coins collected from Parking Lot 2 are put into bags that are not sealed or locked prior to delivery to the police station. The City should consider using locked bags to secure the coins that are collected from Parking Lot 2.

Current Status:

On a weekly basis, the City's Lead Parking Attendant empties the coins from the parking vendor machines in Parking Lot 2 directly into a sealable bank depository bag. Simultaneously, the software in the parking vendor machine provides a report of the value of the coins in the machine since the last collection. The Lead Parking Attendant prepares a bank deposit slip indicating the total amount of coinage as detailed in the software report. A bank deposit slip is placed with the coins in the bank depository bag which is then sealed. The sealed bank depository bag has a receipt that is detachable. The receipt is detached and retained. The sealed bag is placed inside the office safe located on Parking Lot 1 for subsequent delivery to the Police Station. The Lead Parking Lot Attendant then completes a "Lot 2 Coin Report" and forwards it to the Finance Departmental along with the software report, a copy of the bank deposit slip, and the detached receipt from the sealed bank depository bag. These reports provide the internal controls to validate the collection and the reconciliation of the coins collected to the bank deposit.

Every other week, a police parking enforcement officer picks up two sealed bank depository bags from Parking Lot 2 and delivers them to the police station for safekeeping until the City's weekly armored car services pick-up and delivery of the sealed bank depository bags to the bank.

- The bags of coins collected from the parking meters are held in the police department storage room until the armored courier service arrives to pick up for bank deposit. However, the storage room is also accessible to many other employees in the police department. To improve control, the City should secure the bags in a locked safe where access is limited.

Current Status:

The City is continually assessing parking meter internal controls. The City also realizes that the cost of implementing a specific internal control should not exceed the expected benefit of the control. The City is also aware that staff size limitations (three Parking Enforcement Officers) combined with the use of mechanical coin-operated parking meters obstructs efforts to properly segregate duties and limit access to assets.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF PRIOR YEAR OTHER MATTERS PREPARED BY MANAGEMENT

Therefore, the City has previously implemented and currently uses the following compensating controls:

1. The procedures for parking meter activities in the City police department specify those individuals authorized and responsible for storing parking meter cash in the property room.
2. Controls over the collection process include using a special fastener with a seal that is properly controlled to secure the cash collections.
3. The City is currently considering upgrades to its parking meters and downtown parking situation including but not limited to locked bins, and electronic parking meters with data intensive software systems.
4. Meter collections are performed in a timely manner – at least, once weekly during the off-season and up to four times weekly during the peak-parking season.
5. The Police Department has reasonable standards for parking meter failures and timely service repair.

The City has previously recommended and is currently considering the following improvements to its internal controls:

1. The City is currently considering upgrades to its parking meters and downtown parking situation including but not limited to locked bins, and electronic parking meters with data intensive software systems.
 2. The City is constructing a new police station and a room has been identified solely for the purpose of parking meter management.
 3. The City is exploring obtaining coin sorting and coin counting machines to facilitate recording, depositing and reconciling the collection of coins and ensuring their automating entries into the accounting system.
- Currently, the City does not count the amount of the collected coins prior to pick up by the armored courier service for bank deposit. The City assumes that the courier service delivers all the money bags to the bank for deposit. The City also assumes that the bank correctly counts all the money from the armored courier service delivery. To improve control, the City should consider using a coin counting machine to count and record in a bank deposit slip the amount of coins as soon as they are delivered to the police department or shortly after. The amounts reported on the deposit slips should also be checked against the monthly bank statements to verify that all cash are deposited.

Current Status:

The City is continually assessing parking meter internal controls. The City also realizes that the cost of implementing a specific internal control should not exceed the expected benefit of the control. The City is also aware that staff size limitations (three Parking Enforcement Officers) combined with the use of mechanical coin-operated parking meters obstructs efforts to properly segregate duties and limit access to assets.

MEMORANDUM ON INTERNAL CONTROL STRUCTURE

SCHEDULE OF PRIOR YEAR OTHER MATTERS PREPARED BY MANAGEMENT

Therefore, the City has previously implemented and currently uses the following compensating controls:

1. The procedures for parking meter activities in the City police department specify those individuals authorized and responsible for storing parking meter cash in the property room.
2. Controls over the collection process include using a special fastener with a seal that is properly controlled to secure the cash collections.
3. The City is currently considering upgrades to its parking meters and downtown parking situation including but not limited to locked bins, and electronic parking meters with data intensive software systems.
4. Meter collections are performed in a timely manner – at least, once weekly during the off-season and up to four times weekly during the peak-parking season.
5. The Police Department has reasonable standards for parking meter failures and timely service repair.

The City has previously recommended and is currently considering the following improvements to its internal controls:

1. The City is currently considering upgrades to its parking meters and downtown parking situation including but not limited to locked bins, and electronic parking meters with data intensive software systems.
 2. The City is constructing a new police station and a room has been identified solely for the purpose of parking meter management.
 3. The City is exploring obtaining coin sorting and coin counting machines to facilitate recording, depositing and reconciling the collection of coins and ensuring their automating entries into the accounting system.
 4. The City is considering the purchase of a hydraulic lift that would greatly reduce the likelihood of injuries to the person who was emptying the cart into the coin counter.
- Currently there is only one Lead Parking Attendant who is a part time employee. The Lead Parking Attendant's duties include approving invoices, collecting money from machines, handling adjustments, handling customer complaints, and communicating with DataPark. It appears that there may be too many responsibilities for one employee. To improve controls, the City should consider segregating some of her duties to another employee.

Current Status:

The City agrees that the internal control structure could be improved through segregation of the duties of the Lead Parking Attendant. Accordingly, the City's procedures have been modified:

1. The Lead Parking Attendant no longer approves DataPark invoices. This function is now being performed by the Part-time Parking Clerk. Usage reports from the parking vendor machine's software provide the Part-time Parking Clerk with information for approving the invoices.
2. The Lead Parking Attendant no longer authorizes customer adjustments. This function is also now being performed by the Part-time Parking Clerk. The Lead Parking Attendant does sign off as reviewer on adjustments after the Part-time Parking Clerk prepares and authorizes adjustments.
3. The City is continually assessing the duties and responsibilities of these positions to optimize analyzing data vis-à-vis providing high quality parking services.

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

CITY OF SAUSALITO
REQUIRED COMMUNICATIONS

October 28, 2008

To the City Council of the
City of Sausalito, California

We have audited the financial statements of the City of Sausalito as of and for the year ended June 30, 2008 and have issued our report thereon dated October 28, 2008. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures are explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008. As described in notes to the financial statements, during the year, the City implemented the following new standards:

- GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

This Statement establishes financial reporting of several categories of transactions. There was no cumulative effect on current or prior year financial statements.

REQUIRED COMMUNICATIONS

- GASB Statement No. 50 *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*

This Statement amends current disclosures for cost sharing defined benefit pension plans by requiring among other things, funding trend data for cost sharing pools. Note 8 to the financial statements was modified and enhanced primarily by the inclusion of trend funding tables for the State-wide pools the City participates in.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are discussed below:

- Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 6. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- Accrued compensated absences is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the City's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

REQUIRED COMMUNICATIONS

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the City, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

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. We have no such misstatements to report to the audit committee.

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

Mare & Associates

This Page Left Intentionally Blank

485
21