

[Office Name]

## **SUPPLEMENTAL AGENDA MATERIAL**

**Meeting Date:** June 25, 2013

**Item Number:** 44

**Item Description:** Transmission of Annual Management Letter from Outside Auditors

**Submitted by:** Mayor Tom Bates

Addition to the Information report.

# City of Berkeley

Berkeley, California

*Auditors' Communication with  
Those Charged with Governance*

*For the year ended June 30, 2012*





**BADAWI & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

March 27, 2013

To the Honorable Mayor and Members of the City Council  
Of the City of Berkeley  
Berkeley, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit – Rent Stabilization Board, each major fund, and the aggregate remaining fund information of the City of Berkeley (City) for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. We also have audited the City's schedule of expenditures of federal awards and its compliance with the types of compliance requirements described in OMB A-133 Compliance Supplement for the year ended on June 30, 2012, and have issued our report thereon dated March 27, 2013 except for the schedule of expenditures of federal awards, which is as December 21, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 11, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the City's compliance with those requirements.

To the Honorable Mayor and Members of the City Council  
Of the City of Berkeley  
Berkeley, California  
Page 2

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

### 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 City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the City 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 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:

- Investments Valuations
- Allowance for uncollectible accounts
- Accumulated Depreciation
- Net Pension Obligation
- Net Other Post-employment Benefits (OPEB) Obligation
- Claims Liabilities

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Pension Plan
- Other Postemployment Benefits (OPEB) Plan
- Commitments and Contingencies

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Honorable Mayor and Members of the City Council  
Of the City of Berkeley  
Berkeley, California  
Page 3

*Corrected and 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. A list of misstatements detected as a result of audit procedures were attached at the end of this letter.

*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 letters for the financial audit dated December 21, 2012, and for the Single Audit, dated March 27, 2013.

*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 City'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 City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other information in Documents Containing Audited Financial Statement*

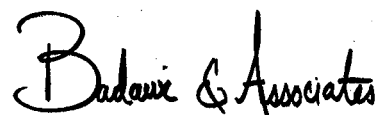
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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

To the Honorable Mayor and Members of the City Council  
Of the City of Berkeley  
Berkeley, California  
Page 4

compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

A handwritten signature in cursive script that reads "Badawi & Associates". The signature is written in black ink and is positioned above the typed name of the firm.

Badawi & Associates  
Certified Public Accountants  
Oakland, California  
March 27, 2013

List of Audit Adjustments

**Adjusting Journal Entry #1**

To adjust the City's claims payable balance to amounts determined by the Actuarial Study and City Attorney.

|                    |  |                   |                   |
|--------------------|--|-------------------|-------------------|
| 881-0000-219.10-01 | OTHER LONG-TERM LIABILITIE/CLAIMS AND JUDGEMENTS | 810,135.00        |                   |
| 881-1702-410.81-01 | LIABILITY PAYMENTS                               |                   | 810,135.00        |
| <b>Total</b>       |  | <u>810,135.00</u> | <u>810,135.00</u> |

**Adjusting Journal Entry #2**

To adjust prepaid expenses to remove amounts related to contributions made to CalPERS for pension related benefits.

|                    |                          |                     |                     |
|--------------------|--------------------------|---------------------|---------------------|
| 934-9701-394.99-10 | CALPERS PREPAID DISCOUNT | 2,180,414.00        |                     |
| 934-0000-117.00-00 | RECEIVABLE/PREPAID       |                     | 2,180,414.00        |
| <b>Total</b>       |                          | <u>2,180,414.00</u> | <u>2,180,414.00</u> |