

**CITY OF MOUNTAIN VIEW
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

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**CITY OF MOUNTAIN VIEW
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2014

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Mountain View, California

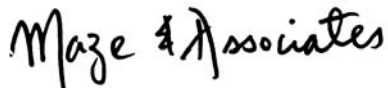
In planning and performing our audit of the basic financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 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 City'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during the 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.

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.

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 *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive, script font.

Pleasant Hill, California
October 15, 2014

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MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2014-01 Visits of Cash Collection Sites

The City engaged us to perform Agreed Upon Procedures with respect to assisting management in assessing whether there were cash collection control or procedural weaknesses at the front counters located in the Police Department and Fire Department Fire & Environmental Protection Division for the period from July 1, 2013 through February 6, 2014. The detailed results of that work are included in a separately issued report.

Management's Response:

Staff has reviewed the cash collection report and detail recommendations are included in a separate report.

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next year. We have cited them here to keep you abreast of developments:

EFFECTIVE FISCAL YEAR 2015:

2014-02 GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have a material impact on the City's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).
- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Management's Response:

The implementation of this pronouncement relies on the information to be provided from PERS. Staff will review the implementation and work with PERS to comply with this statement.

2014-03 GASB 69 – Government Combinations and Disposals of Government Operations

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

Management's Response:

Management is reviewing the implementation of this statement and will comply with the requirements for Fiscal Year 2014-15 as applicable.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2014-04 **GASB 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68***

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Management's Response:

The implementation of this pronouncement relies on the information to be provided from PERS. Staff will review the implementation and work with PERS to comply with this statement.

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REQUIRED COMMUNICATIONS

To the City Council of
the City of Mountain View, California

We have audited the basic financial statements of the City of Mountain View (City) for the year ended June 30, 2014. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Mountain View 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, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

GASB 67 – *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*

GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the governmental unit 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.

In 2011 and 2012, the state legislature enacted two laws, AB x1 26 and AB 1484, respectively, to dissolve redevelopment agencies in California, including the Mountain View Revitalization Authority (Authority). The City elected to serve as the Successor Agency to the former Mountain View Revitalization Authority (Successor Agency).

In order to complete the dissolution process, the Successor Agency was charged with retiring all remaining obligations of the Authority and disposing of the Authority's remaining real property assets pursuant to an approved Long-Range Property Management Plan (LRPMP). The Successor Agency and Santa Clara County developed and presented a proposed dissolution plan (Dissolution Package) to the Oversight Board and the Department of Finance in an effort to complete the dissolution process. On September 20, 2013, the Oversight Board approved the actions necessary in the Dissolution Package and on October 22, 2013, the Successor Agency, City and Shoreline Community took actions to approve and authorize the Dissolution Package to wind down the affairs of the former Authority and terminate the Successor Agency. On November 14, 2013, the DOF reviewed the Oversight Board's approval of the Dissolution Package and approved the Oversight Board's actions and also issued a Finding of Completion. As part of the Dissolution Package, the Successor Agency also submitted a LRPMP. The DOF approved the LRPMP on February 7, 2014. As of June 30, 2014, all assets and liabilities were transferred to the City per the approved Dissolution Package.

Estimates

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 City's financial statements are discussed below:

- *Estimated Fair Value of Investments:* (Note 3 to the financial statements) - As of June 30, 2014, the City held approximately \$388.6 million of cash and investments as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2014. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to that date.
- *Accrued Landfill Postclosures Costs* (Note 7 to the financial statements)- The City has estimated post closure costs of a landfill based on what it would cost to perform all currently mandated closure and post-closure care. Actual closure and post-closure care costs may be higher due to inflation variances, changes in technology, or changes in State or Federal regulations.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures

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

Difficulties Encountered in Performing the Audit

We encountered no 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 clearly trivial, and communicate them to the appropriate level of management. 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.

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 a management representation letter dated October 15, 2014.

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 Accompanying the Financial Statements

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

With respect to the required supplementary information accompanying the financial statements, applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

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

Maze & Associates

Pleasant Hill, California
October 15, 2014