



January 25, 2017

To the Honorable Mayor and Members of the City Council  
City of Pomona, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pomona (the City) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, 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 May 10, 2016. 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 City are described in the notes to the financial statements. Statement of Governmental Accounting Standards (GASB Statement No. 72), Fair Value Measurement and application was implemented in fiscal year 2015-2016. This implementation is noted in footnote No. 3 of Cash and Investments.

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 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 our opinion on the financial statements were:

Management's estimate of the Net Pension Liability and the OPEB Liability is based on actuarial standards utilized in the GASB 68 Actuarial Report provided by CalPERS and the OPEB actuarial report. We evaluated the key factors and assumptions used to develop the Net Pension Liability and OPEB Liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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.



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### ***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. These differences are described below. In addition, we detected misstatements as a result of audit procedures which were material, and were subsequently corrected by management. The details of these misstatements are described in a separate letter dated January 25, 2017.

### ***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 January 25, 2017.

### ***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.

## **General Fund – Fund Balance Reserves**

GFOA recommends at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level or unrestricted fund balance in the general fund at any one time.



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Using fiscal year 2015-2016 financial statements data, two months of regular general fund operating expenditure amounts to \$15.3 million and two months of regular general fund revenue amounts to \$15.3 million. The City's general fund has a total of \$16.7 million committed and unassigned fund balance at June 30, 2016. **We recommend that the City evaluates the sufficiency of its fund balance in the general fund.**

#### **Fund Balance Deficit in the Self-Insurance Fund**

The City has a \$ 6,238,884 deficit fund balance in its Self-Insurance Internal Service Fund. Internal service funds provide goods or services on a cost-reimbursement basis to other departments of the City. The use of an internal service fund is appropriate only if charges to internal customers are recovering the full cost of providing goods and services. Internal Service fund should operate on a "break even" basis over time.

Since the City's Self-Insurance Internal Service Fund has deficit fund balance position, the department receiving goods and services from the fund are not being charged for the benefits received. **It is imperative for the financial health of the City that the internal service fund recover the cost of goods and services provided to internal departments.** The largest portion of these costs are from the General Fund.

#### **Capital Assets Tracking System**

Currently the City maintains its capital assets records on Excel Spreadsheets and uses the spreadsheets to compute annual depreciations and gains/losses on disposition of capital assets. While Excel spreadsheets are ideal for creating one time analysis, they become problematic as the data grows and evolves over time. As new rows and columns get added, the summary ranges and formulas may need to be modified or new ones created. If the data and the formulas are not consistently updated, mistakes will occur and will lead to incorrect financial reporting. **We recommend that the City consider the acquisition of a software system to maintain its records over capital assets.** A capital assets software would allow multiple users to access and update the records, maintain more detail records, automate depreciation calculation, and save time in preparing reports and organizing records.

#### **Accounting System**

The software program currently used to perform the general ledger function was purchased many years ago and is antiquated by today standards. The current system is limited in its functions and does not produce the reports and queries to efficiently operate in today's environment. Growth in the City and in services provided has significantly affected its accounting requirements. Industry trends have produced more sophisticated and productive tools to perform this function.

**We recommend that management reviews its accounting system needs and evaluate products that meet today's standards before its current system fails.** This evaluation should focus on ensuring that the City's financial systems maximize the productivity of its accounting staff and meet the future needs of management. The review could be done either internally or with the assistance from outside consultants.



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### Governmental Activities Net Position

Below is a five trend of the City's governmental activities net position. The decrease in net position in 2015 was attributable mainly to the implementation of GASB Statement No. 68 – Accounting and Financial Reporting for Pensions.

Fiscal Year	Net Position		
	Governmental Activities		
	Total	Changes	Unrestricted
2012	\$ 267,511,049	N/A	\$ (99,699,617)
2013	272,182,264	\$ 4,671,215	(88,955,872)
2014	264,487,631	(7,694,633)	(66,485,308)
2015	115,637,057	(148,850,574)	(223,393,489)
2016	114,064,530	(1,572,527)	(227,001,243)

The City needs to take steps to reverse the declining net position and negative unrestricted portion in its governmental activities by assessing its revenues, controlling its expenditures, pursuing grant funding for its programs and capital outlays and evaluating partnerships with other governmental entities and the private sector.

### Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedules for the General Fund, Housing Authority and Miscellaneous Grants, the Schedule of Changes in Net Pension Liability and related ratios, and the Schedule of Plan Contributions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this 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.

### New Auditing Standard No. 130

This new auditing standard is effective for financial periods ending on or after December 15, 2016; for most California municipalities it is effective for the period July 1, 2016 through June 30, 2017 and future periods thereafter. The standard allows CPA firms to issue an opinion on the financial statements conformity with generally accepted accounting principles, as well as an opinion on the operating effectiveness of internal controls over financial reporting through an integrated audit. This standard does not change the objectives of a financial statement audit, it only enhances the value and scope of a financial statement audit and increases the level of assurance provided by CPA firms on financial



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controls. Municipalities should look to perform an integrated audit for more assurance on the operating effectiveness of internal controls over financial reporting.

#### New Accounting Standards

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2015-2016 audit:

GASB Statement No. 72, *Fair Value Measurement and Application*.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in the following fiscal year audit and should be reviewed for proper implementation by management:

#### Fiscal year 2016-2017

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

GASB Statement No. 77, *Tax Abatement Disclosures*.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*.

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an Amendment of GASB Statement No. 14*.

GASB Statement No. 82, *Pension Issues an Amendment of GASB Statement Nos. 67, 68, and 73*.

#### Fiscal year 2017-2018

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 81, *Irrevocable Split Interest Agreements*.



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**Restriction on Use**

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

Very truly yours,

*Lance, Soll & Lingham, LLP*

Brea, California