

To the City Council
City of Carson
Carson, California

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Carson, California (the City), as of and for the year ended June 30, 2018. 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 planning letter to you dated August 2, 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 City are described in Note 1 to the financial statements. As discussed in Notes 1D and 18 to the financial statements, in fiscal year 2017-2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of this standard required retrospective application resulting in a reduction of \$33,426,196 in previously reported net position of the governmental activities. No other accounting policies were adopted and the application of other existing policies was not changed during the year ended June 30, 2018. 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.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the City's financial statements are as follows:

- a. Management's estimate of the fair value of investments is based on quoted prices in an active market. When quoted prices in active markets are not available, fair values are based on evaluated prices received by the City's asset manager from a third-party service provider.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. Management's estimate of Carson Reclamation Authority's closure and postclosure landfill remediation liability is based on information obtained in the negotiation of agreements with the independent contractors that will be performing the work as well as with the developers of the sites that require the remediation performing the work.
- d. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.
- e. The annual required contributions, pension expense, net pension liability and corresponding deferred outflows of resources and deferred inflows of resources for the City's public defined benefit plan with CalPERS are based on actuarial valuations provided by CalPERS.
- f. The OPEB expense, total OPEB liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's OPEB plan are based several key assumptions that are set by management with the assistance of an independent third party actuary. These key assumptions include anticipated investment rate of return, health care cost trends, mortality, and certain amortization periods.
- g. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims are based on estimates provided by the claims administrators.

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 7 regarding the claims and judgments payable, Note 8 regarding the CalPERS defined benefit plan, Note 9 regarding the City's other postemployment benefits plan, Note 17 regarding the Carson Reclamation Authority's estimated closure and postclosure landfill remediation liability, and Note 18 regarding the restatement of beginning net position as a result of implementing GASB Statement No. 75.

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

Significant Audit Findings (Continued)

Difficulties Encountered in Performing the Audit

Other than the delay in the commencement of our final fieldwork as a result of the City's books not being closed and ready for audit in a timely manner due to management turnover and implementation of a new enterprise resource planning system, we encountered no significant 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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures was corrected by management:

- a. The correction of the prepaid insurance balance of the Carson Reclamation Authority.
- b. The adjustment to the estimated liability for the closure and postclosure landfill remediation costs for which the Carson Reclamation Authority has taken responsibility.
- c. The correction of the recording of transfers between the Successor Agency and the Carson Reclamation Authority.
- d. The reduction of the receivable due from governmental agencies and the related unavailable revenue in the City's State CIP Grants Fund for grant revenue received in the current year.
- e. The recording of a note receivable associated with a Carson Housing Authority land sale to a developer.
- f. To record the accretion of accrued interest on the Successor Agency's 2003B bonds.

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 auditors' 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 June 27, 2019.

Significant Audit Findings (Continued)

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 Matters

We applied certain limited procedures to management’s discussion and analysis, the schedule of changes in the net pension liability and related ratios and the schedule of contributions related to the City’s defined benefit pension plan, the schedule of changes in the Net OPEB liability and related ratios and schedule of contributions for the City’s other postemployment benefits plan, and the budgetary comparison schedules for the general and major special revenue funds, which are Required Supplementary Information (RSI) that supplements the 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 (supplementary information), which accompany the financial statements but are not RSI. With respect to the 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 basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance.

Upcoming Changes in Accounting Standards and Regulatory Updates

Procurement Rules under Uniform Guidance

The Uniform Guidance has different procurement rules than those previously required by the Circular A-133. Due to the work required by nonfederal entities to implement these new rules, a two-year grace period was given. In May 2017, an additional one-year grace period was given. Beginning July 1, 2018, nonfederal entities will be required to comply with all of the Uniform Guidance procurement rules. Included in these new rules is the requirement for written policies and procedures.

Commencing with the fiscal year 2018-2019 audits, auditors will request the written policies of the nonfederal entity for all single audits and review the procurement policies and procedures for compliance with the Uniform Guidance procurement rules.

Restriction on Use

This information is intended solely for the information and use of 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.

White Nelson Diehl Evans LLP

Irvine, California
June 27, 2019

City of Carson
 Waived AJE's
 June 30, 2018

<u>DESCRIPTION</u>	<u>DEBIT</u>	<u>CREDIT</u>
<i>General Fund</i>		
1 To accrue AP for expenditures related to FY17-18		
Accounts Payable		67,052
Expenditures	67,052	
<i>Other Aggregate Funds</i>		
2 To account for the effect of not accruing the July gas tax remittance in FY 17/18.		
Taxes receivable	148,428	
Fund balance		160,814
Gas tax revenues	12,386	
3 To accrue AP for expenditures related to FY17-18		
Accounts Payable		137,630
Expenditures	137,630	
TOTAL WAIVED AJE'S AFFECTING THE GOVERNMENTAL ACTIVITIES	365,496	365,496