



December 16, 2019

To the Honorable Mayor and Members of the City Council
City of Santa Monica, 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 Santa Monica, California (the City) for the year ended June 30, 2019. 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 April 1, 2019. 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. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2018-2019. 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 the City's financial statements were:

Management's estimates of its net pension liability and net other postemployment benefits liability are based on actuarial valuation specialist assumptions. We evaluated the key factors and assumptions used to develop the net pension liability and net other postemployment benefits liability in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosure of Pollution Remediation in Note 4 to the basic financial statements discusses the City's obligation for pollution remediation costs. Multiple methods for estimating the value of the obligation are available under GASB Statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations, including measuring the obligation at current value, expected total outlays, or expected future cash flow. The City has elected to measure the liability using the expected cash flow method and includes an additional 10% contingency for unforeseen costs. During the fiscal year, the Water Fund assumed the pollution remediation obligation from the General Fund which resulted in a special item in the Water Fund of \$21,327,312. As of June 30, 2019, the City has estimated that its total obligation for pollution remediation is \$40,341,608, with \$7,449,646 of that amount expected to be paid out during fiscal year 2019-20.





To the Honorable Mayor and Members of the City Council
 City of Santa Monica, California

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

As described in Note 16 to the basic financial statements, the city has a defined benefit pension plan which is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple employer plan administered by CalPERS. The City reported a net pension liability of \$447,834,574 as compared to \$466,819,562 in the prior year. This liability represents the net difference between the pension plan assets and the total pension liability.

Additionally, the City provides other post-employment benefits (OPEB) based on agreements with various bargaining units. The City reported a net OPEB liability of \$27,541,204 as compared to \$26,375,591 in the prior year. This liability represents the net difference between the OPEB plan assets and the total OPEB liability.

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.

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 are described below. In addition, none of the misstatements were material, either individually or in the aggregate, to the financial statements taken as a whole.

Unadjusted Audit Differences	Current Year Over (Under) Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
Invoices not accrued	\$ 319,508
Payment not recorded until FY 19/20	271,958
Cumulative effect (before effect of prior year differences)	591,466
Effect of unadjusted audit difference - prior year	-
Cumulative effect (after effect of prior year differences)	\$ 591,466

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.



To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 16, 2019.

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.

Post-Closing Journal Entries

During the fiscal year, the City implemented a new accounting system. During our review of internal controls throughout the audit, we did not identify any significant areas of concern as it relates to the new accounting system. However, the implementation naturally presented challenges to the City’s year-end closing process, thereby causing a greater volume of post-closing journal entries than usual. This implementation along with a temporary Finance Department staffing shortage appears to be the greatest contributing factors to the volume of post-closing journal entries.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, the schedules of revenues, expenditures, and changes in fund balance – budget and actual for the general fund and the low and moderate income housing assets fund, the schedule of changes in the net pension liability and related ratios, the schedule of contributions – pension plans, the schedule of changes in the net OPEB liability and related ratios, and the schedule of contributions – OPEB, 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 combining and individual fund 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.



To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

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

We were not engaged to report on introductory or statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

New Accounting Standards

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2018-2019 audit:

GASB Statement No. 83, *Certain Assets Retirement Obligations*.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

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 2019-2020

GASB Statement No. 84, *Fiduciary Activities*.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statement No. 14 and No. 61*.

Fiscal year 2020-2021

GASB Statement No. 87, *Leases*.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

Fiscal year 2021-2022

GASB Statement No. 91, *Conduit Debt Obligations*.

Restriction on Use

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

Very truly yours,

Brea, California