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Auditor's Required Communication to City Council

CITY OF OAKLAND

Communications to City Council

For the Year Ended
June 30, 2018



Certified
Public
Accountants

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2018

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Honorable Mayor and Members of the City Council
City of Oakland, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland (City) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit 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. In addition, the Port of Oakland (Port), a discretely presented component unit, is audited by us under a separate engagement and a separate letter of required communications is submitted to the Port's Board of Commissioners.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in the City's internal control, described in item 2018-001 in the accompanying Current Year Recommendations section, to be a material weakness. We have also included other comments and observations and a status of the prior year recommendations in this report.

The City's responses to the findings identified in our audit are also described in the Current Year Recommendations section. We did not audit the City's responses and, accordingly, we express no opinion on them.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to the City in our audit services plan provided on July 9, 2018. Professional standards also require that we communicate to you the information related to our audit as discussed in the accompanying Required Communications section. We would like to thank City management and staff for the courtesy and cooperation extended to us during the course of our engagement.

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

Macias Gini & O'Connell LLP

Walnut Creek, California
December 12, 2018

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REQUIRED COMMUNICATIONS

Significant Audit Findings

I. 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 of Oakland (City) are described in Note I to the City's basic financial statements. As described in Note I Section E to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. As a result, the City recorded deferred outflows of resources and a net other postemployment benefit (OPEB) liability due to this change in accounting principle and reduced the beginning net position of the primary government and the component unit (Port of Oakland) in the amount of \$712.2 million and \$84.5 million, respectively.

As described in Note I Section E to the basic financial statements, the City also adopted the following GASB statements for the year ended June 30, 2018:

- Statement No. 81, *Irrevocable Split-Interest Agreements*;
- Statement No. 85, *Omnibus 2017*; and
- Statement No. 86, *Certain Debt Extinguishment Issues*.

Implementation of these statements, did not have a significant impact on the City for the year ended June 30, 2018.

The City presents the Port of Oakland (Port) in a unique manner as compared to other local governmental entities with port operations. All local government entities we sampled reflect their ports as departments of the organization rather than as a discretely presented component unit. Some of these ports have similar management structures with a Board of Commissioners appointed by the sponsoring city's mayor/city council to oversee the operations of the port. Management's representation to us was that the Port operates with a separate legal standing (i.e. using its own corporate powers) under the City Charter, which would allow for this presentation. In addition, the City Attorney's Office has represented that the Port operates very similar to a corporation with the Charter acting as its Articles of Incorporation and By-Laws. Ultimately, the City's presentation of the Port makes it less comparable to other cities that have port operations, and thus, is a unique presentation.

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.

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The most sensitive estimates affecting the City's financial statements were:

- *Fair value of investments.* The City's investments are generally carried at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement using observable market transactions or available market information. The fair value of the City's investments (including the Police and Fire Retirement System) is generally measured based on Level 1 inputs, which are quoted prices in active markets, or Level 2 inputs, which are inputs other than quoted prices in Level 1 that are observable for the asset, either directly or indirectly. To a lesser extent, the City has some investments measured based on Level 3 inputs, which are not observable.
- *Estimated unbilled sewer service revenue.* The estimates for unbilled sewer service revenue are based on an evaluation of the sewer service reports from the East Bay Municipal Utility District, cash flows, monthly billing cycles, and historical billings.
- *Estimated allowance for losses on accounts receivable.* The allowance for losses on accounts receivable represents aged receivables over 360 days.
- *Estimated allowance for losses on loans receivable.* The allowance for losses on loans receivable is based on the types of loans (e.g., forgivable, deferred, grant or amortizing) and management's estimate regarding the likelihood of collectability based on loan provisions and collateral.
- *Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable properties.* The estimated useful lives of capital assets were determined based on the nature of the capital assets and management's estimate of the economic life of the assets.
- *Accrual of compensated absences.* Accrual of vacation, sick leave, and compensatory time is based on unused employee sick leave, vacation, and other compensatory time, and employees pay rates at year-end.
- *Estimated claims liabilities.* Estimated claims liabilities were based on actuarial evaluations using historical loss, other data, and attorney judgment about the ultimate outcome of the claims.
- *Estimated environmental costs.* Estimated environmental costs are based on reports from the City's Public Works Department Environmental Services and external consultants.
- *Net pension liability, net OPEB liability, and related deferred outflows and inflows of resources related to pensions and OPEB.* The City is required to contribute to its pension and OPEB plans at an actuarially determined rate. The actuarial pension and OPEB data, including the liabilities, deferred outflows of resources, and deferred inflows of resources, are based on actuarial calculations performed in accordance with the parameters set forth for the pension plans under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which incorporate actuarial methods and assumptions adopted by the City.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting opinion units that collectively comprise its basic financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the disclosures related to investments, long-term obligations, litigation, and pension and other postemployment benefits. The disclosures about investments, long-term obligations, and pension and other postemployment benefits are described in Note II Section A, Note II Section G, Note II Section H, and Note III Sections A and B, respectively, to the financial statements.

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

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II. Difficulties Encountered in Performing the Audit

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

III. 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 Summary of Uncorrected Adjustments 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. In addition, the attached Summary of Corrected Adjustments summarizes misstatements detected as a result of audit procedures that were corrected by management.

IV. Disagreements with Management

For purposes of this report, 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.

V. Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2018.

VI. 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 governmental unit'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.

VII. 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.

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Other Matters

VIII. Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis, the pension and other postemployment benefits schedules, and the budgetary comparison schedules for the General Fund and the Other Special Revenue Fund, which are required supplementary information (RSI) that supplement 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.

IX. Supplementary Information and Other Sections

We were engaged to report on the combining 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.

We were not engaged to report on the introductory and statistical sections of the comprehensive annual financial report, which accompany the basic financial statements but are not RSI or supplementary information. 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.

X. Other Information in Documents Containing Audited Financial Statements

During the year, the City included audited financial statements for the year ended June 30, 2017, in various debt offering documents (e.g., Official Statements). We do not have an obligation to perform any procedures to corroborate other information contained in such debt offering documents. We were not associated with and did not have any involvement with such documents. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the debt offering documents.

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CURRENT YEAR RECOMMENDATIONS

**2018-001 Material Weakness in Internal Control Over Financial Reporting
*Financial Reporting Process***

Criteria:

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). This includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Condition:

The City's preparation of its Comprehensive Annual Financial Report ("CAFR") is a responsibility centralized within the Finance Department who compiles and verifies financial data, accounting estimates and US GAAP application decisions maintained by that department along with those generated by the various departments within the City's decentralized structure. The process of preparing an accurate CAFR is complicated by the variation in levels of supervisory review, reconciliation and processing flows within the Finance and other departments along with the inconsistencies in accounting background among the departments.

During 2018, the City's Finance Department evaluated, tested, and implemented an automated financial reporting application that accumulates, maps and links data from the financial database (Oracle) for CAFR reporting in response to a prior year internal control deficiency. However, the City did not have enough time to update its chart of accounts in order to create a bridge between the various bases of accounting needed for financial reporting (modified accrual, full accrual and budgetary), test to ensure that the new application is generating accurate financial reports, and change its work processes to automate manual excel worksheets. As a result of this transition, the City continued to work on resolving reporting and reconciling errors during the current year's audit.

Recommendation:

We recommend the City complete user acceptance testing on its new application, update its chart of accounts and fund structure so that the financial information is properly captured for financial reporting purposes, and continue to provide increased technical accounting trainings for preparers and reviewers of journal entries and reconciliations to assist in timely identification and resolution of errors.

Management's Response:

The City concurs with this recommendation and is devoting additional resources to improve its general ledger accounting functions and financial reporting procedures. These steps include both personnel and process enhancements, which the City expects to have in place before the end of the current fiscal year.

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CURRENT YEAR RECOMMENDATIONS (Continued)

2018-002 Other Control Deficiency
Information Technology: City-Wide Information Security Program

Criteria:

Internal controls over financial reporting are reliant on information technology (IT) controls, which are designed effectively. In that regard, an effectively designed IT environment is one where an organization:

- (a) develops, documents, and disseminates to appropriate personnel, policies that addresses purpose, scope, roles and responsibilities, management commitment, coordination among organizational departments, and compliance; and procedures to facilitate the implementation of the policy and associated controls; and,
- (b) periodically reviews and updates the current policies and procedures.

Condition:

An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures implement the entity-wide policy. Ongoing monitoring of control design, implementation, and operating effectiveness should also be applied so that the program includes continuous monitoring processes.

Critical within a well-established information security program are updated documented policies, procedures, and guidance; security roles and responsibilities identified and appropriately delineated across the organization; and ongoing evaluations to ensure that policies and controls intended to reduce risk are effective. Without these aspects, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. In addition, continuous monitoring of the City's systems is necessary to mitigate threats from cyberattacks, which have increasingly impacted other local governmental entities ability to issue payments, assist with client services, receive remittances, and perform basic governmental functions.

During our audit, we noted weaknesses within the City's information security program; specifically the City does not have updated policies and procedures along with continuous risk assessment and testing programs in place to actively mitigate threats to the City's IT infrastructure from ransomware attacks, cyberattacks, and other unauthorized data breaches.

Recommendation:

We recommend the City evaluate its allocation of resources dedicated to cyber security threats and ensure resources are dedicated to update policies and procedures and to continuously perform periodic risk and vulnerability assessments, penetration testing, monitoring through scanning or agent-based software tools, or perform other cybersecurity activities in order to identify, track and resolve security threats.

Management's Response:

The City concurs this recommendation concerning the need to improve the City-Wide Information Security Program. To this end, over the last 12 months the Information Technology Department (ITD) has initiated several projects aimed at strengthening the City's overall technology infrastructure and implementing tools to effectively automate processes, monitor systems, and analyze operational and security issues as they are detected.

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CURRENT YEAR RECOMMENDATIONS (Continued)

Our efforts to improve information security are guided by the National Institute of Standards and Technology Framework for Improving Critical Infrastructure Cybersecurity (NIST CSF) and the Center for Internet Security Critical Security Controls for Effective Cyber Defense (CIS Controls). These are complementary frameworks in that NIST CSF prescribes organizational security objectives, whereas the CIS Controls outline a specific action plan to focus on the most effective controls (20 controls) to stop cyber-attacks. Following is a subset of the projects that ITD is currently implementing to improve the City's security posture:

- Tanium – Endpoint Management – This product provides visibility to all assets (servers, desktops, mobile devices, network devices, etc.) contained within our infrastructure, provides automation of security patches to these endpoints, and provides the ability to detect and respond to threats when they occur. When fully implemented, Tanium will address 17 of the 20 CIS Controls.
- Proofpoint Email Protection – We have upgraded our email spam, malware and threats solution to include Advanced Threat Protection (ATP). This upgrade provides additional protection against phishing attacks and malicious email imbedded URLs.
- 2-Factor Password Reset – Providing 2-factor password reset will allow ITD to enable a strong Password Group Policy through the City. This policy will dictate the frequency of change and the required complexity of end user passwords.
- Qualys Vulnerability Scans – Run quarterly.
- CyberArk – Privileged access management ensures that access to all core assets is controlled and monitored, and that account passwords are changed after each access request.
- Retirement of all unsupported operating systems.
- Cloud First Policy – We have established a cloud first policy that requires when feasible (operationally and financially), that applications be migrated to our architected Virtual Private Cloud (VPC). ITD contracted with Amazon to architect and implement this VPC to provide a hardened, controlled, secure, and resilient environment for operation of City applications. The initial applications to be migrated into this environment will be the City's Point of Sale and Business Tax applications.

The City has also identified a need for improved security policies and dedicated security personnel. ITD continues to pursue improvements in each of these areas while implementing the projects noted above.

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CURRENT YEAR RECOMMENDATIONS (Continued)

2018-003 Informational Item
Preparation for Upcoming Governmental Accounting Standard on Leases

Criteria:

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 87, *Leases*, to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Condition:

It is anticipated that the implementation of GASB Statement No. 87 will have a material impact on the City's financial statements. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessor (like the City and the Port) is required to recognize, for each lease, a lease receivable and deferred inflow of resources. The lease receivable is measured at the present value of the lease payments expected to be received during the term of the lease. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Interest revenue is recognized on the lease receivable and inflow of resources (revenue) is recognized from the deferred inflows of resources in a systematic and rational manner over the term of the lease. Lessors do not derecognize the asset underlying the lease. Also under GASB Statement No. 87, a lessee is required to recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. To allow adequate time for financial statement preparers to plan for the transition and its implementation, the accounting change for leases is required by the fiscal year ending June 30, 2021. For the transition, leases should be converted ("recognized and measured") using the facts and circumstances that exist at the beginning of the period of implementation, or the beginning of the earliest period restated.

Recommendation:

This new standard represents a significant change to the accounting and financial reporting of certain types of leases. We recommend the City and the Port identify all of its lease contracts and assess the impact of the required accounting and reporting changes.

Management's Response:

The City will begin the planning process for addressing Statement No. 87 this year and intends to implement this new standard no later than the fiscal year ending June 30, 2021.

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STATUS OF PRIOR RECOMMENDATION

**2017-001 Material Weakness in Internal Control Over Financial Reporting
*Financial Reporting Process***

Recommendation:

During the fiscal year 2017 audit, we noted that the City's financial reporting process continues to rely on numerous manual spreadsheets to support computations to prepare its financial statements. This manual process is prone to errors such as the audit adjustment identified related to the City's pension expense and related pension activities if not carefully analyzed. We recommend the City evaluate its financial reporting process and its preparation of the financial report and consider investing in other tools and trainings to automate its year-end financial reporting process in order to increase efficiency and decrease errors.

Status of Corrective Action:

In process – see current year finding 2018-001.

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SUMMARY OF CORRECTED ADJUSTMENTS (Dollars in thousands)

Ref #	Opinion Unit	Journal Entries	Debit	Credit
#1	Governmental Activities (GA)	Change in accounting principle		\$ 20,111
	Governmental Activities	Recovery: Fringe/Retirement	\$ 20,111	
	Business-type Activities (BTA)	Change in accounting principle		\$ 313
	Business-type Activities	Recovery: Fringe/Retirement	\$ 313	
	Internal Service Funds	Change in accounting principle		\$ 378
	Internal Service Funds	Recovery: Fringe/Retirement	\$ 378	
	Sewer Service Fund	Change in accounting principle		\$ 311
	Sewer Service Fund	Recovery: Fringe/Retirement	\$ 311	
	Nonmajor Enterprise Fund	Change in accounting principle		\$ 2
	Nonmajor Enterprise Fund	Recovery: Fringe/Retirement	\$ 2	
To correct GASB75 restatement entry related to deferred outflows of resources.				
#2	Capital Projects Fund	Cash Held by Treasury: City Pool	\$ 69	
	Capital Projects Fund	Legal Fees		\$ 69
	General Fund	Cash Held by Treasury: City Pool		\$ 69
	General Fund	Unreserved Fund Balance: Undesignated	\$ 69	
To correct General Fund beginning fund balance.				
#3	State Gas Tax	Cash Held by Treasury: City Pool	\$ 1,899	
	State Gas Tax	Cash In Bank: GASB Adjustments	\$ 3	
	State Gas Tax	Cash Adjustment for Interest Accrual		\$ 5
	State Gas Tax	Interest Receivable: Investment	\$ 5	
	State Gas Tax	Receivables: Due from Employees Overpayment		\$ 2
	State Gas Tax	Accounts Payable: General		\$ 1
	State Gas Tax	Unreserved Fund Balance: Undesignated		\$ 2,040
	State Gas Tax	Various revenue accounts		\$ 1,725
	State Gas Tax	Various expenditure accounts	\$ 1,866	
To correct State Federal Grant Fund - subfund 2231 - grouping errors with State Gas Tax Fund.				
#3.1	State Federal Grants	Cash Held by Treasury: City Pool		\$ 1,898
	State Federal Grants	Cash In Bank: GASB Adjustments		\$ 3
	State Federal Grants	Cash Adjustment for Interest Accrual	\$ 5	
	State Federal Grants	Interest Receivable: Investment		\$ 5
	State Federal Grants	Receivables: Due from Employees Overpayment	\$ 2	
	State Federal Grants	Accounts Payable: General	\$ 1	
	State Federal Grants	Unreserved Fund Balance: Undesignated	\$ 2,040	
	State Federal Grants	Various revenue accounts	\$ 1,725	
	State Federal Grants	Various expenditure accounts		\$ 1,866
To correct State Federal Grant Fund - subfund 2231 - grouping errors with State Gas Tax Fund.				

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SUMMARY OF CORRECTED ADJUSTMENTS (Dollars in thousands) (Continued)

Ref#	Opinion Unit	Journal Entries	Debit	Credit
#4	Low Moderate Income Housing Fund	Cash Held by Treasury: City Pool	\$ 7,899	
	Low Moderate Income Housing Fund	Cash In Bank: GASB Adjustments	\$ 16	
	Low Moderate Income Housing Fund	Cash Adjustment for Interest Accrual		\$ 31
	Low Moderate Income Housing Fund	Due from: Oakland Redevelopment Agency	\$ 541	
	Low Moderate Income Housing Fund	Notes and Loans Receivable: Long Term	\$ 253,047	
	Low Moderate Income Housing Fund	Notes and Loans Receivable Interest	\$ 79,411	
	Low Moderate Income Housing Fund	Notes and Loans Receivable: Allowance for Doubtful		\$ 114,347
	Low Moderate Income Housing Fund	Interest Receivable: Investment	\$ 31	
	Low Moderate Income Housing Fund	Receivables: Returned Checks	\$ 2	
	Low Moderate Income Housing Fund	Deferred Inflows for Loans		\$ 218,652
	Low Moderate Income Housing Fund	Unreserved Fund Balance: Undesignated		\$ 12,125
	Low Moderate Income Housing Fund	Various revenue accounts		\$ 5,028
	Low Moderate Income Housing Fund	Various expenditure accounts	\$ 9,236	
To correct Low Moderate Income Housing Fund/State Federal Grant Fund - subfund 2830 - mapping errors.subfund groupings.				
#4.1	State Federal Grants	Cash Held by Treasury: City Pool		\$ 7,899
	State Federal Grants	Cash In Bank: GASB Adjustments		\$ 16
	State Federal Grants	Cash Adjustment for Interest Accrual	\$ 31	
	State Federal Grants	Due from: Oakland Redevelopment Agency		\$ 541
	State Federal Grants	Notes and Loans Receivable: Long Term		\$ 253,047
	State Federal Grants	Notes and Loans Receivable Interest		\$ 79,411
	State Federal Grants	Notes and Loans Receivable: Allowance for Doubtful	\$ 114,347	
	State Federal Grants	Interest Receivable: Investment		\$ 31
	State Federal Grants	Receivables: Returned Checks		\$ 2
	State Federal Grants	Deferred Inflows for Loans	\$ 218,652	
	State Federal Grants	Unreserved Fund Balance: Undesignated	\$ 12,125	
	State Federal Grants	Various revenue accounts	\$ 5,028	
	State Federal Grants	Various expenditure accounts		\$ 9,236
	To correct Low Moderate Income Housing Fund/State Federal Grant Fund - subfund 2830 - mapping errors.subfund groupings.			
#5	Governmental Activities	Deferred Outflows: Pension	\$ 44,860	
	Governmental Activities	Recovery: Fringe/Retirement		\$ 44,860
To record deferred outflows for the City's PFRS contribution made subsequent to the measurement date.				
#6	Sewer Service Fund	Deferred Outflows: Pension		\$ 17,333
	Sewer Service Fund	Deferred Outflows: OPEB	\$ 567	
	Sewer Service Fund	Deferred Inflows: Pension	\$ 12,499	
	Sewer Service Fund	Deferred Inflows: OPEB		\$ 3,882
	Sewer Service Fund	Recovery: Fringe/Retirement	\$ 8,149	
	Nonmajor Enterprise Fund	Deferred Outflows: Pension		\$ 45
	Nonmajor Enterprise Fund	Deferred Outflows: OPEB	\$ 4	
	Nonmajor Enterprise Fund	Deferred Inflows: Pension	\$ 84	
	Nonmajor Enterprise Fund	Deferred Inflows: OPEB		\$ 30
	Nonmajor Enterprise Fund	Recovery: Fringe/Retirement		\$ 13
	Internal Service Funds/GA	Deferred Outflows: Pension		\$ 4,822
	Internal Service Funds/GA	Deferred Outflows: OPEB	\$ 689	
	Internal Service Funds/GA	Deferred Inflows: Pension	\$ 7,262	\$ 2,187
	Internal Service Funds/GA	Deferred Inflows: OPEB		\$ 4,715
	Internal Service Funds/GA	Recovery: Fringe/Retirement	\$ 4,550	\$ 777
	Business-type Activities	Deferred Outflows: Pension		\$ 17,378
	Business-type Activities	Deferred Outflows: OPEB	\$ 571	
	Business-type Activities	Deferred Inflows: Pension	\$ 12,583	
	Business-type Activities	Deferred Inflows: OPEB		\$ 3,912
	Business-type Activities	Recovery: Fringe/Retirement	\$ 8,149	\$ 13
	To adjust the deferred outflows of resources/ deferred inflows of resources for pension and OPEB.			

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SUMMARY OF CORRECTED ADJUSTMENTS (Dollars in thousands) (Continued)

Ref#	Opinion Unit	Journal Entries	Debit	Credit
#7	State Federal Grants	Due from Other Funds	\$ 15	
	State Federal Grants	Due to Other Funds		\$ 15
	To reclass negative due from in the SFS fund to a due to balance.			
#8	General Fund/ GA	Receivable: Other Receivables	\$ 9,000	
	General Fund/ GA	Litigation: Settlements Paid to Attorneys		\$ 9,000
	Adjustment entry to record insurance proceeds received after year end for a FY2018 settlement.			
#9	Sewer Service Fund	Deferred Outflows: Pension	\$ 960	
	Sewer Service Fund	Recovery: Fringe/Retirement		\$ 960
	Nonmajor Enterprise Fund	Deferred Outflows: Pension	\$ 7	
	Nonmajor Enterprise Fund	Recovery: Fringe/Retirement		\$ 7
	Business-type Activities	Deferred Outflows: Pension	\$ 967	
	Business-type Activities	Recovery: Fringe/Retirement		\$ 967
	Internal Service Funds/GA	Deferred Outflows: Pension	\$ 1,133	
	Internal Service Funds/GA	Recovery: Fringe/Retirement		\$ 1,133
	To correct entry for contributions made to CalPERS subsequent to the measurement date.			

CITY OF OAKLAND

Communications to City Council
For the Year Ended June 30, 2018

SUMMARY OF UNCORRECTED ADJUSTMENTS (Dollars in thousands)

<u>Ref #</u>	<u>Opinion Unit</u>	<u>Journal Entries</u>	<u>Debit</u>	<u>Credit</u>
#1	General Fund/ GA	Cash held in Treasury: City Pool		\$ 11,892
	General Fund/ GA	JP Morgan Payables	\$ 11,673	
	General Fund/ GA	JP Morgan Payroll	\$ 219	
<i>To reclassify outstanding checks issued as of June 30, 2018 against the bank balance.</i>				
#2	Sewer Service Fund/ BTA	Unbilled receivables	\$ 78	
	Sewer Service Fund/ BTA	Sewer revenues		\$ 78
<i>To adjust sewer unbilled receivables as of June 30, 2018 based on July billings.</i>				
#3	State Federal Grants	State grant: Dept of Parks and Rec	\$ 1,744	
	State Federal Grants	Deferred inflows: Grant revenues		\$ 1,744
<i>To defer receivable balance for amounts not received within availability period.</i>				
#4	General Fund/ GA	Services: Insurance and bonding	\$ 1,431	
	General Fund/ GA	Fund balance		\$ 1,431
<i>Reverse the prior year proration of the annual insurance liability balance payable at June 30, 2017</i>				
	General Fund/ GA	Accounts payable: accrued	\$ 1,653	
	General Fund/ GA	Services: Insurance and bonding		\$ 1,653
<i>To record the current year proration of the annual insurance liability balance payable at June 30, 2018</i>				
#5	General Fund/ GA	Cash held in Treasury: City Pool		\$ 687
	General Fund/ GA	Expense	\$ 687	
<i>To record unreconciled difference due to timing differences between bank and book balance at June 30, 2018.</i>				