

**ATTACHMENT A**  
**AUDITOR'S "AUDIT COMMITTEE LETTER"**

To the Honorable Mayor and  
Members of the City Council  
of the City of Newport Beach  
Newport Beach, 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 Newport Beach, California (the City), as of and for the year ended June 30, 2019. 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 letter on planning matters dated May 16, 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 Note 1 to the financial statements. No new accounting policies having a significant impact were adopted and the application of existing policies was not changed during 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 are as follows:

- a. Management's estimate of the fair value, the price that would be received to sell an asset in an orderly transaction between market participants, of investments is based on market values provided by outside sources.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.

## **Significant Audit Findings (Continued)**

### *Qualitative Aspects of Accounting Practices (Continued)*

- d. 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 plans are based on actuarial valuations provided by CalPERS.
- e. The actuarially determined contribution, OPEB expense, net OPEB liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's OPEB plan are based on actuarial valuations provided by a third party.
- f. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims are based on actuarial valuations provided by a third party.

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 8 regarding claims payable, Note 10 regarding the City's defined benefit plans, Note 11 regarding the City's Other Post-Employment Benefit Plan, and Note 17 regarding restatement of net position. 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 clearly trivial, and communicate them to the appropriate level of management. As a result of our audit-related test work, we proposed one correction to the financial statements in the amount of \$350,000 in the General Liabilities Internal Service Fund to account for the total estimated liability of a probable loss lawsuit pending with the City.

### *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 December 18, 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, and the schedules of changes in net pension liability and related ratios, and the schedules of contributions related to the City’s defined benefit plans, and the schedule of changes in net OPEB liability and related ratios and the schedule of contributions related to the City’s OPEB plan, 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 fund financial statements and schedules (supplementary 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 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 on them.

## Upcoming Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities* (Statement), which is effective for the City's fiscal year ended June 30, 2020. Due to the significant nature of this Statement, GASB has also issued Implementation Guide No. 2019-2, *Fiduciary Activities*, to clarify, explain, and elaborate the requirements of this Statement. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Implementation of this Statement could require significant time from staff to identify the City's fiduciary activities, to analyze current activity in the City's agency funds and recharacterize those activities into a custodial fund or another City fund depending upon whether the activity is custodial in nature or related to a City's own-source revenue activity, and, to potentially modify the chart of accounts structure in the City's general ledger for fiduciary activities to accommodate the newly-required statement of changes in fiduciary net position for all fiduciary activities.

## Restriction on Use

This information is intended solely for the use of the City Council and management of the City of Newport Beach 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  
December 18, 2019