



January 13, 2021

To the Honorable Mayor and Members of the City Council
City of Fullerton, 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 Fullerton, California (the City) for the year ended June 30, 2020. 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 March 25, 2020. 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 2019-2020. 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, net other post-employment benefits liability, and claims and judgments 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 post-employment benefits liability in determining that they are reasonable in relation to the financial statements taken as a whole. We also evaluated the City's estimation of the claims and judgments liability in comparison to the range of expected losses based on certain confidence levels prepared by the actuary and determined that the City's estimate is reasonable and conservative.

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

The disclosure of Commitments and Contingencies in Note 17 to the financial statements identifies significant purchase commitments related to capital projects entered into by the City and their remaining commitments at June 30, 2020.



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The disclosure of the Special Item in Note 19 to the financial statements identifies the purpose and amount of a significant transactions which resulted in the transfer of \$17.9 million in property from the Successor Agency to the Former RDA to the City, in accordance with the dissolution process of the Successor Agency.

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. No misstatements were found.

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 13, 2021.

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.

Reconcile Bank Accounts on a Timely Basis

During our audit process, we observed that bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. This was determined to be due to the recent turnover in the Finance Department and we do not believe it to be due to systemic issues in the City's internal control processes or policies. The bank reconciliations, when completed, were correctly reconciled and reviewed, and no audit adjustments were required. Management was aware of this timing issue and has taken steps to ensure that bank statements are



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reconciled on a timely basis, including cross-training staff on the bank reconciliation process, and looking to fill staffing vacancies. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month, with not more than three months expiring before a bank account is reconciled.

Other Matters

We applied certain limited procedures to the management's discussion and analysis; the budgetary comparison schedules for the General Fund and Grants Administration Fund; the schedules of changes in net pension liability and related ratios; the schedule of changes in net other post-employment liability and related ratios; and the schedules 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 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.

We were not engaged to report on the introductory and statistical sections of the Comprehensive Annual Financial Report, 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 2019-2020 audit:

GASB Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance

The following pronouncements have been postponed as a temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and the new effective date is reflected in the following fiscal years and should be reviewed for proper implementation by management:

Fiscal year 2021

GASB Statement No. 84, Fiduciary Activities.

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



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Fiscal year 2022

GASB Statement No. 87, *Leases*.

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

Fiscal year 2023

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 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California