



Presentation of 2015 Audit Results to the City Council of the City of Simi Valley

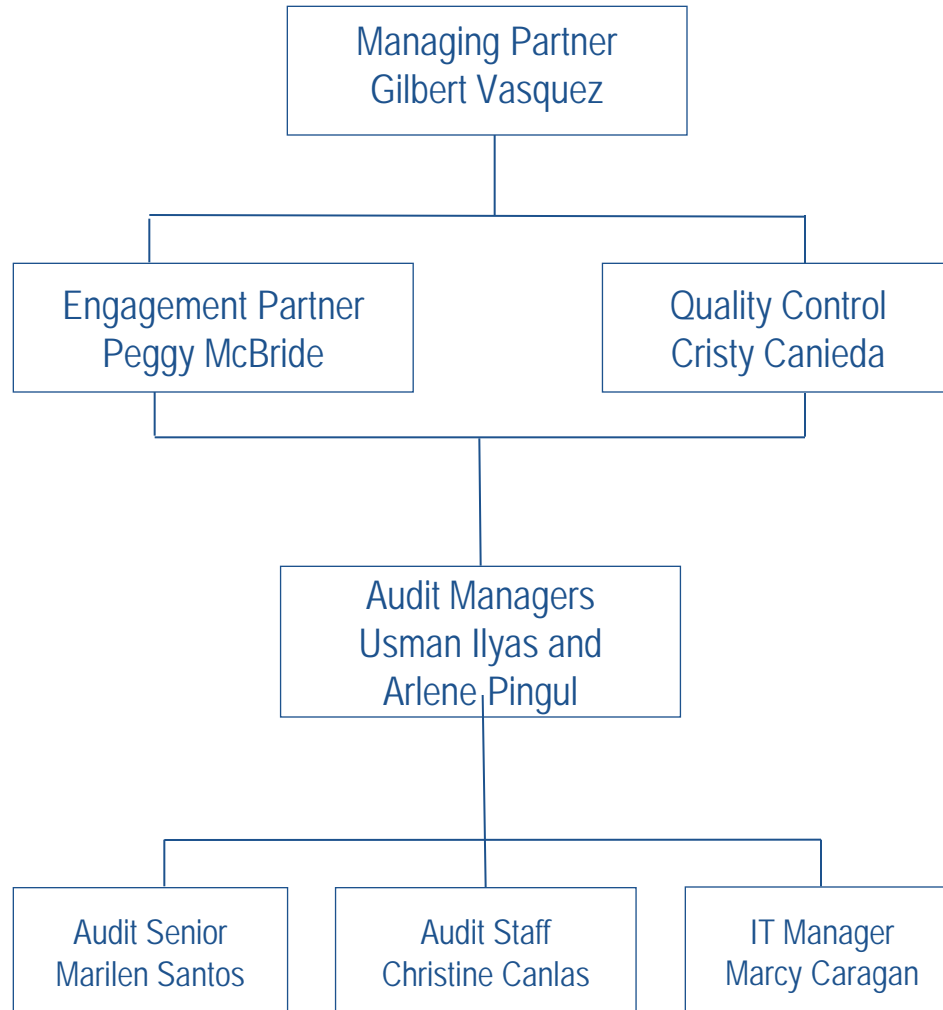


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Contact: Mr. Gilbert Vasquez, CPA ♦ Dated: March 14, 2016

AGENDA

- The Audit Team
- Scope of Services
- Areas of Audit Focus
- Summary of Audit Results:
 - Overall Observations
 - Noted Best Practices
 - Our Report/Opinion on the Financial Statements
 - Our Report/Opinion on Internal Controls over Financial Reporting and on Compliance with Laws and Regulations
 - Financial Reporting Highlights
 - Our Single Audit Opinion (Federal Programs)
- Comments and Recommendations
- Required Communications to the City Council
- New Accounting/Auditing Pronouncements

Audit Team



SCOPE OF SERVICES

- City's Basic Financial Statements –
The Financial Statement Audit
- Audit of Major Federal Grant Programs in
accordance with OMB Circular A-133 –
The Single Audit
- Report on ***GANN Limit*** Compliance
- Year Around ***Consultation*** on Financial and Accounting
Matters

AUDIT AREA

FOCUS

Cash and Investments

The fair values reported in the statement of net position are fairly stated with no inaccurate, incomplete, or missing disclosures related to investment securities.

Receivables and related allowance for doubtful accounts

Intergovernmental receivables are recorded correctly and are properly valued as to collectability.

Capital Assets

Capital assets, capital expenditures and related depreciation are monitored and fairly stated in the financial statements. Construction commitments, construction in progress and contract retainages are properly disclosed and recorded in the financial statements.

Long Term Debt

Notes payable, long-term debt, and debt equivalents are properly classified between current and long-term portions, and required disclosures have been made. Relevant debt covenants are monitored for compliance.

Pension and OPEB liabilities

Pension and OPEB liabilities are properly valued and disclosed in the financial statements.

Expenditure/Payroll

Expenditures are incurred in compliance with budgetary constraints and procurement policies. Payroll costs are correctly allocated and are supported by documentation of hours and rates.

AREAS OF AUDIT FOCUS

We performed data analytics to test disbursements and general ledger transactions for unusual events, such as:

- Unusual fluctuations in payroll check amounts
- Payroll checks posted on non-pay days
- Gaps in check sequence
- Transactions posting outside of business hours
- Transactions/payments with even dollar amounts
- Unusually large dollar payments

All identified transactions were investigated and satisfactorily resolved.

Summary of Audit Results

OVERALL OBSERVATIONS

- The City's Department of Administrative Services and other departments involved in the audits have been cooperative and professional throughout the audit process.
- Despite management turnover in the Administrative Services Department, the City continued to maintain an effectively designed internal accounting control system and achieve timeliness in its year-end closing and financial reporting processes.
- The City prepared the Comprehensive Annual Financial Report with input and review by Vasquez. This effort places the City in an elite tier of municipalities whose staff have the ability, interest and professionalism to undertake this major effort which contributes to an enhanced understanding of the City's financial condition and results of operations by both the preparers and the citizens, rating agencies, grantors and others who use and rely on this information.

NOTED BEST PRACTICES

- Thoroughly documented financial and accounting policies and procedures
- Minimal adjusting entries (corrections) required to the accounting records
- Budget in Brief AND Budget with Five-Year Projection
- Five-Year Capital Improvement Plan
- Top management focus on internal controls, accuracy, quality
- Transparency initiative via the City's web site

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

- Unmodified “Clean” Opinion
- Audit performed 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*
- The financial statements fairly present, in all material respects, the City of Simi Valley’s:
 - Financial position
 - Changes in financial position

REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND COMPLIANCE

- Pursuant to Generally Accepted Governmental Auditing Standards (GAGAS)
- Represents Auditor's Evaluation of Internal Controls over Financial Reporting and Testing of Compliance with Laws and Regulations
- Unmodified Auditor's Reports on Compliance and Internal controls
- Material weakness and significant deficiencies – none noted
- Noncompliance material to financial statements – no instances noted

FINANCIAL REPORTING HIGHLIGHTS

- ❑ The City's net position decreased from \$282M at 6/30/2014 to \$209M at 6/30/2015, primarily due to reporting its unfunded Net Pension Liability. (CAFR p. 21)
- ❑ The new pension reporting standard, GASB 68, required the City to report its unfunded Net Pension Liability at 6/30/15 of \$98.7 million. (CAFR p. 77)
- ❑ The City expects to continue pension contributions at levels recommended by CalPERS which will, in due course, eliminate the unfunded Net Pension Liability.
- ❑ The City has an unfunded liability for Post Employment Benefits (OPEB) of approximately \$45.5 million as of July 1, 2013 (latest actuarial valuation report). Beginning in fiscal year 2017-2018, the City will be required to record this liability on its statement of net position.

FINANCIAL REPORTING HIGHLIGHTS (CONTINUED)

- ❑ The City's Unrestricted General Fund balance (including the prudent reserve and reserves for economic recovery, retiree benefits and special programs) increased by approximately \$2 million, to \$27 million.
- ❑ The Enterprise Funds experienced a net loss before contributions and operating transfers of \$7.7M. Water and Sanitation rate adjustments will address this matter.
- ❑ The Internal Service Funds reported a deficit net position of \$3.2M. This indicates that the General Fund and other funds should be charged at higher rates for insurance and workers compensation costs in order to satisfy the full actuarially accrued liability amounts.

Single Audit

OMB CIRCULAR 1-133 - SINGLE AUDIT

Auditor's Report on Compliance

- Highway Planning and Construction – Unmodified Opinion
- Special Programs for the Aging – Title III, Part C – Nutrition Services – Unmodified Opinion

There were no federal award findings noted during the fiscal year ended June 30, 2015.

The City continues to be classified as a “Low Risk Auditee” based on the Federally-prescribed criteria.

COMMENTS AND RECOMMENDATIONS

- Development of Formal Risk Assessment Process and California State Controller's Internal Control Guidelines
- Risk Assessment in Network Security
- Recoverability of Financial Data Backups
- Implementation of GASB 68 (Pension Liabilities) and GASB 75 (Post Employment Benefit Liabilities) and Monitoring Ongoing Costs
- Preparation for the New *Federal Uniform Guidance*
- Creation of a "Financial Statements in Brief" Document – Popular Report

SAS 114 – Auditors' Required Communication to Those Charged with Governance

REQUIRED COMMUNICATIONS

- Accounting principles - Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness.
- Accounting policies - We find that the City of Simi Valley's significant accounting policies are appropriate and management has applied its policies consistently with prior periods in all material respects.
- Unusual transactions - Information audited by us has been generally verifiable, with management being appropriately neutral on the accounting propriety, policies and their application.
- Estimates - Estimates are formulated by management based on knowledge and experience about past and current events and assumptions about future events. Significant items subject to such estimates include: valuation allowances on receivables, useful lives for property and equipment, OPEB and net pension liability, self-insurance claims payable and valuation of investments.
- Audit adjustments - We proposed 1 material audit adjustment.
- Misstatements - Management has corrected all misstatements noted during our audit.

REQUIRED COMMUNICATIONS

- Disagreements or difficulties with management - None
- Consultations with other accounting firms - Management has advised us that there were none.
- Significant issues addressed with management prior to retention - None
- Irregularities, fraud or illegal acts - No irregularities, fraud or illegal acts involving senior management, or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.
- Independence - We confirm that we are independent of the City of Simi Valley within the meaning of the independence, integrity and objectivity rules, regulations, interpretations, and rulings of the AICPA, the State of California Board of Accountancy, the Government Auditing Standards, and other regulatory agencies.

New Accounting/Auditing Pronouncements

NEW ACCOUNTING/AUDITING PRONOUNCEMENTS

- GASB Statement No. 72, *Fair Value Measurement Application*, further defines assets requiring fair value measurement, the criteria for defining fair value, and allows donated capital assets to be measured at acquisition cost rather than fair value. Implementation requires restatement. Effective for fiscal year 2016.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, outlines reporting by governments that provide OPEB to their employees. Effective for fiscal year ended June 30, 2018.
- GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Effective for fiscal year ended June 30, 2016.

NEW ACCOUNTING/AUDITING PRONOUNCEMENTS (CONTINUED)

- *OMB Circular A-133 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, expands requirements for managing sub-recipients, prohibits procurement practices that may minimize competition, focuses on internal controls versus specific procedures, clarifies direct and indirect costs, revises audit requirements and required audit reporting.

QUESTIONS?

THANK YOU!
