



Presentation of 2017 Audit Results to the City Council of the City of Simi Valley



March 26, 2018

Agenda

Introduction and Background

Scope of Services

Areas of Audit Focus

Summary of Audit Results:

- Overall Observations
- Our Reports/Opinions:
 - On the Financial Statements
 - On Internal Controls over Financial Reporting
 - On Compliance with Laws and Regulations
 - Pursuant to the Single Audit Act (Federal Programs)

Required Communications to the City Council

New Accounting/Auditing Pronouncements

Comments and Recommendations for Management

Financial Reporting Highlights

Introduction and Background

Vasquez & Company LLP is a Certified Public Accounting firm serving as the City's independent external auditor.

Our offices are located in Sacramento, Los Angeles and San Diego.

Vasquez focuses on providing auditing and consulting services to local governments, and audits several cities as well as the Southern California Association of Governments (SCAG).

Vasquez began serving as independent auditor in fiscal year 2014.

Our team serving the City includes 2 partners, 1 manager, 2 senior auditors and an Information Technology auditor.

Scope of Services

City's Basic Financial Statements

The Financial Statement Audit

City's Comprehensive Annual Financial Report (CAFR) –

Limited Procedures

Audit of Major Federal Grant Programs in accordance with the Uniform Guidance –

The Single Audit

Report on ***GANN Limit*** Compliance

Year-Round ***Consultation*** on Financial and Accounting Matters

Areas of Audit 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 Allowance for Doubtful Accounts

Intergovernmental receivables and water/sanitation 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 reported in the financial statements.

Long Term Debt

Notes payable and long-term debt, are properly classified as current or long-term, 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

General Ledger Maintenance

Evaluated internal controls, reviewed journal entries, and tested general ledger transactions for unusual events such as:

- Transactions posted during the weekends;
- Transactions with even dollar amounts; and
- Transactions with unusually large dollar payment amounts.

Internal Controls

Internal controls were evaluated in order to determine the extent of auditing procedures to be performed.

- No material weaknesses in internal controls were noted.
- Prior year IT control recommendations are being addressed in conjunction with the new ERP (Munis) system implementation.

Fraud Considerations

We surveyed certain members of management and staff regarding:

- The means by which management communicates to employees the importance of ethical behavior and appropriate business practices;
- Their knowledge of any actual fraud or suspicions of fraud; and
- Risks that the financial statements may be materially misstated due to fraud, and the controls in place to prevent and detect it.

Data Analytics

We applied computer-assisted tests to journal entries and to all payroll and disbursement transactions, noting aberrations, trends and high dollar transactions which were then investigated. All such transactions were resolved as appropriate.

SUMMARY OF AUDIT RESULTS

Overall Observations

The implementation of a new ERP system has been underway during the audit timeframe. This has been a time-consuming, challenging and critically important undertaking. Nevertheless:

- The City's Department of Administrative Services and other departments involved in the audits have been cooperative, prepared and professional throughout the audit process.
- The City continued to maintain an effectively designed internal accounting control system.
- The City maintained accounting records and achieved a year-end closing and financial reporting processes that required NO audit adjustments.
- The City prepared the CAFR consistent with GFOA's Certificate of Excellence in Financial Reporting criteria. This effort places the City in an elite tier of municipalities whose staff have the ability, interest and professionalism to undertake this major effort and effectively communicate financial information to the citizens, rating agencies, grantors and others who use and rely on this information.

Reports of the Independent Auditors

Unmodified Opinion on Financial Statements - The basic financial statements fairly present, in all material respects, the City's financial position and changes in net position.

Unmodified Opinion on Compliance - Noncompliance material to the financial statements – No instances noted.

Unmodified Opinion on Internal Control - Material weaknesses and significant deficiencies – None noted.

Unmodified Opinion on Major Federal Programs - Noncompliance material to the major Federal programs – Some compliance findings noted.

Unmodified Opinion on Internal Controls over the Administration of Federal Programs - Material weaknesses and significant deficiencies – None noted.

Comments and Recommendations - See separate report to Management and the City Council

The Single Audit of Federal Awards

Auditor's Report on Compliance

Major program(s) selected pursuant to a *risk assessment*

➤ 2017 Major Programs

- Community Development Block Grant (CDBG) – Unmodified Opinion
- Equitable Sharing Program – Federal Asset Forfeiture Program (FAFP)– Unmodified Opinion
- Compliance Findings:
 - CDBG - Subrecipient Monitoring (Required sub-award information on the agreement; on-site monitoring)
 - FAFP – Equipment Management – Policies and Procedures

➤ 2016 Major Program - Federal Transit Formula Grants – Unmodified Opinion

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

AU 380 – Auditors’ Required Communication to Those Charged with Governance

See Separate SAS 114 Report of Required Communications to the City Council

- Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness.
- No significant or unusual transactions or accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus were identified.
- We proposed no material audit adjustments.
- The City of Simi Valley’s significant accounting policies are appropriate, and that management has applied its policies consistently with prior periods in all material respects.
- We did not encounter any difficulties with management while performing our audit procedures.
- We are not aware of any consultations by management with other accountants about accounting or auditing matters.
- No significant issues were discussed or subject to correspondence with management prior to or as a condition of our retention as independent auditor for the City.
- No irregularities, fraud or illegal acts came to our attention as a result of our audit procedures.

New Accounting/Auditing Pronouncements

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. Unfunded actuarial accrued liability at 6/30/2017 was **\$38.4 million**.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB No. 67, No. 68 and No. 73*, outlines consistent application of financial reporting requirements to certain pension issues. Effective for fiscal year ended June 30, 2018.

GASB Statement No. 85, *Omnibus 2017*, outlines variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Effective for fiscal year ended June 30, 2018.

New Accounting/Auditing Pronouncements

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for the accounting on in-substance debt defeasance where existing resources- as opposed to the proceeds of refunding debt – are used to fund and irrevocable trust. Now the debt will be considered defeased whether the trust is funded with existing resources or refunding debt proceeds. Effective for fiscal year ended June 30, 2018.

GASB Statement No. 87, *Leases*, outlines recognition of certain 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. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Effective for fiscal year ended June 30, 2020.

Comments and Recommendations for Management

- Loans Receivable – Valuation Documentation
- Planning for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Written Policies and Procedures in Accordance with the Federal Uniform Guidance

Financial Reporting Highlights

- The City's **overall net position** decreased by \$3.2M, to \$379.1M at 6/30/2017. (CAFR p. 23)
- The City's **unrestricted deficit in net position** increased by 21% to a deficit of \$42.8M vs. a deficit of \$35.2M at prior year-end. (CAFR p. 23)
- **City-wide expenses** increased to \$142.9M in FY 2017, from \$134M in FY 2016. (CAFR p. 24)
- **Governmental Fund expenditures** increased in 2016-17.
 - Governmental Fund expenditures 2016-17 \$86.6M
 - Governmental Fund expenditures 2015-16 \$71.5M
- The **Net Pension Liability** increased to \$133M, from \$106.2M at 6/30/2016. It is important that the City fund pension contributions at levels recommended by CalPERS which will, in due course, eliminate the unfunded Net Pension Liability.
- The **Unfunded Liability for Post Employment Benefits (OPEB)** increased to \$38.497M as of January 1, 2017 (latest actuarial valuation report). Beginning in fiscal year 2017-2018, the City will be required to record this liability on its financial statements, in the Statement of Net Position.

Financial Reporting Highlights

- The City's Unrestricted **General Fund balance** (including the prudent reserve and reserves for economic recovery, retiree benefits and special programs) decreased by \$0.4M, to \$27.8M.
- The Unrestricted General Fund balance was \$27.8M, or 45% of annual expenditures.
- The **Enterprise Funds** net loss before contributions and operating transfers increased to \$6.5M (compared to a net loss of \$5.3M in FY 2016).
 - Sanitation revenues increased by 10% while expenses also increased by 27%.
 - Water revenues increased by 18%, but expenses also increased by 9%.
 - Transit system operating loss increased to \$7.6M from \$6.8M.
- The **Internal Service Funds** reported a positive net position of \$2.3M, which is an improvement from a deficit of \$2.3M in FY 2016.
 - Workers' Compensation Insurance net position improved to \$987K, from a deficit of \$651K at 6/30/2016.
 - Liability Insurance net position improved to \$1M, from (\$2.3M) at 6/30/2016.

Financial Reporting Highlights

- Assessed valuations of real property increased by 4.4%. (CAFR p. 153)
- The City's business tax revenues have increased in each of the past 5 years. (CAFR p. 165)
- The City has 513 permanent, full-time employees; compared to 599 employees in 2008. (CAFR p. 164)
- The City has experienced a positive net increase in governmental fund balances in each of the past 4 years, from an overall deficit of \$5.8M at 6/30/2013 to a surplus of \$4.4M at 6/30/2016. However, in FY 2017, there was a deficit or decrease in fund balance of \$1M. (CAFR p. 151)
- The City's debt limit is \$649M. It has \$0 outstanding debt applicable to this limit. (CAFR p. 161)


QUESTIONS?

**THANK YOU FOR YOUR
TIME AND ATTENTION**

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