



CITY OF SIMI VALLEY

Presentation of 2014 Audit Results to the City Council

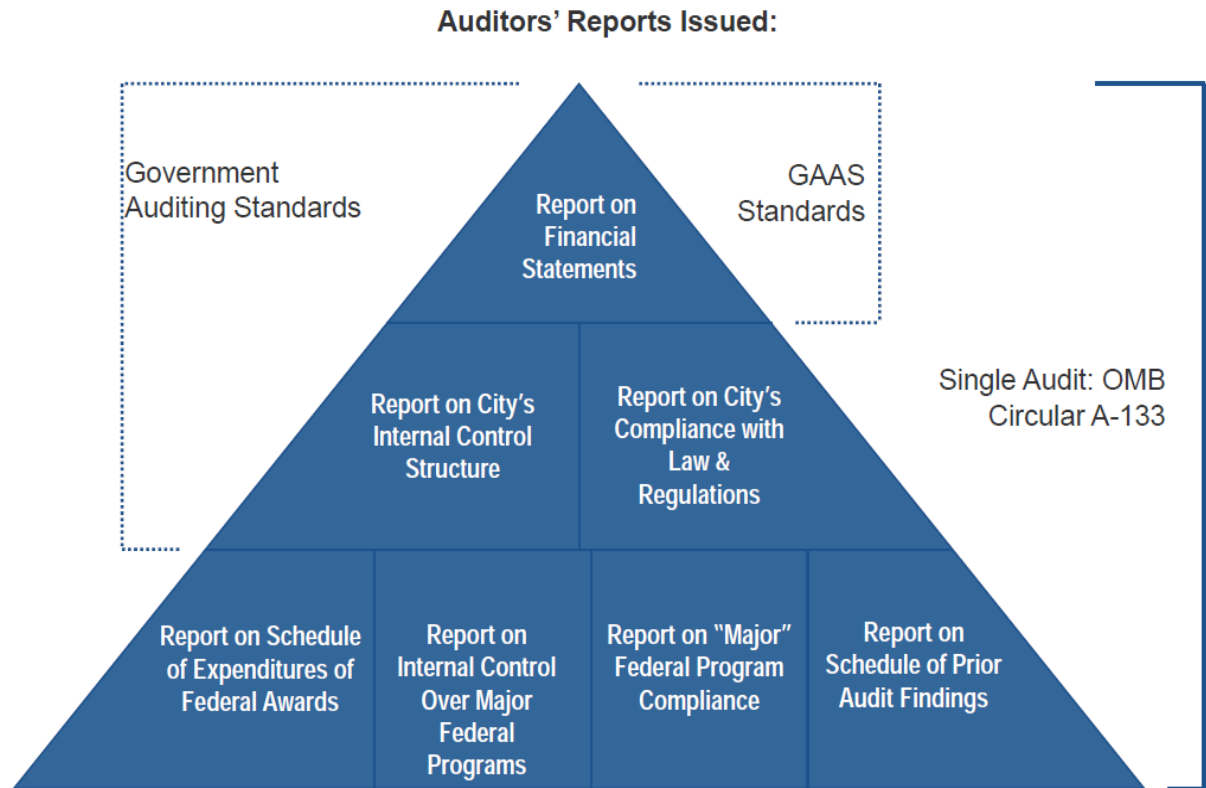


Members AICPA Division of Firms ♦ Center for Public Company Audit Firms ♦ Registered with Public Company Accounting Oversight Board
801 S. Grand Avenue, Suite 400, Los Angeles, CA 90017-4646 ♦ Member of the Government Finance Officers Association
♦ (213) 629-9094 ♦ Fax (213) 489-2995 ♦ www.vasquezcpa.com
Contact: Mr. Gilbert Vasquez, CPA ♦ Dated: January 26, 2015

Scope of Services

Components:

- 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
- Simi Valley Library Agreed Upon Procedures



Auditor's Responsibilities

- To express our opinions on the financial statements
 - Based on our risk assessments, understanding of controls, tests of transactions and balances and review of the financial statements
 - To include the design of audit procedures to detect material misstatements of the financial statements caused by fraud
- To conduct the audit in accordance with generally accepted auditing standards and generally accepted governmental auditing standards
- To express our opinions on the City's compliance with Federal program regulations, including maintenance of effective internal controls
- To conduct the Single Audit in accordance with Office of Management and Budget Circular A-133 and AICPA requirements

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 collectibility.
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 restrictions/requirements are being followed.
Revenues	Revenues represent valid transactions which are properly valued and recorded.
Expenditures/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.

Overall Observations

- Unmodified “Clean” Opinion - The City’s accounting records required no significant correcting audit adjustments in order to be in compliance with Generally Accepted Accounting Principles.
- No material internal control weaknesses with respect to accounting or financial reporting were identified.
- During the year the City’s beginning government-wide net position was adjusted (decreased) by \$275,000 to reflect the transfer to Successor Agency related to Land previously recorded in the General Fund.
- In July 2014, the City Council and Board of Directors of the SV Public Facilities Financing Authority approved early repayment of the 2004 COP through the issuance and sale of Lease Revenue Refunding Bonds, Series 2014A in the amount of \$18.8 million.
- The City’s Finance team have been knowledgeable, cooperative, helpful and professional throughout the audit process.

Required Communications to Those Charged With Governance

- Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness, and has provided us a letter setting forth certain representations pertaining to those financial statements.
- We believe the City's significant accounting policies are appropriate, and that management has applied its policies consistently with prior periods in all material respects.
- Information audited by us have been generally verifiable, with management being appropriately neutral on the accounting policies and their application, including alternative accounting treatments.
- Management's estimates, including collectability of receivables, useful lives for property and equipment, and valuation of investments have a basis including knowledge about past and current events and assumptions about future events.
- No significant issues were discussed or addressed with management prior to retention.
- We had no disagreements and did not encounter any difficulties with management while performing our audit procedures that require the attention of the City Council.
- 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.
- We are independent of the City of Simi Valley within the meaning of the applicable independence, integrity and objectivity rules, regulations and interpretations.

Information Technology (IT) Controls and Comments

- Reviewed Information Technology (IT) controls over SAP Financial System:
 - **Physical and Logical Access** – Controls which permit management to specify what users can do, which resources they can access, and what operations they can perform in the system.
 - **Backup and Recovery** – Controls in place that ensure secure back up of vital financial and non-financial data.
 - **Change Management** – Controls in place to manage the IT change process such that introduction of errors and incidents related to change are minimized.
 - **Network Security** – Controls in place to ensure information technology system is secure from unauthorized access and threats.
- **Comments**
 - No formal risk assessment has been performed over the City's network security to identify vulnerabilities. A comprehensive review has not been performed regarding compliance with data security standards (PCI-DSS) over payment cards.

Information Technology (IT) Controls and Comments

- o **Comments**

- While the City is implementing a new financial system to replace the current system which is no longer supported by the vendor, no recovery procedures have been established in the event that the current system becomes inoperable. No restore test of backup data has been performed.
- Physical security of the main data center is weak. PIN lock is shared and the door is not always kept closed. HALON (City's Fire Suppressant System) even though installed cannot be activated in case of fire for safety reasons.

Summary of Recommendations to the Council and Management

1. Simi Valley Library Agreed Upon Procedures:
 - There are no written policies and procedures in place for recording of receipts from the public such as fines, fees, etc.
 - There is no vault in place to store daily cash receipts.
 - There is no monthly revenue reconciliation provided by outside third party.
2. Plan for the impact of the new accounting standard with respect to pensions liabilities. Effective June 30, 2015 the City's share of the PERS unfunded pension liability must be recorded on the financial statements (the Statement of Net Position). PERS officials have stated that they will advise cities of this amount in the Spring of 2015.
3. Plan for the impact of the new accounting standard (presently an Exposure Draft) with respect to other post employment benefit liabilities (OPEB). Effective June 30, 2017 the City's share of the OPEB unfunded liability must be recorded on the financial statements (the Statement of Net Position). An actuarial valuation will determine the amount of this unfunded liability which was approximately \$45.5 million as of June 30, 2014.