



Presentation of 2016 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

- 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
- Recent Happenings at CalPERS
- 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 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 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.

AUDIT AREA

FOCUS AND APPROACH

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
- 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
- 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 – no instances 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*

- 2016 Major Program – Federal Transit Formula Grants – Unmodified Opinion
- 2015 Major Programs
 - Highway Planning and Construction – Unmodified Opinion
 - Special Programs for the Aging – Title III, Part C – Nutrition Services – Unmodified Opinion

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

REQUIRED COMMUNICATIONS

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

- Management's responsibility – Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness.
- Controversial issues – 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.
- Audit adjustments - We proposed no material audit adjustments.
- Accounting policies – The City of Simi Valley's significant accounting policies are appropriate and were consistently applied.
- Disagreements or difficulties with management – We did not encounter any difficulties with management while performing our audit procedures.
- Consultations with other accounting firms – We are not aware of any consultations by management with other accountants about accounting or auditing matters.
- Conditions of retention – 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.
- Irregularities, fraud or illegal acts – No irregularities, fraud or illegal acts came to our attention as a result of our audit procedures.

NEW ACCOUNTING/AUDITING PRONOUNCEMENTS

NEW ACCOUNTING/AUDITING PRONOUNCEMENTS IN 2016

- GASB Statement No. 72, *Fair Value Measurement Application*, further defines assets (primarily investments) requiring fair value measurement, the criteria for defining fair value, and the measurement precision.
- 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.

FUTURE 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 6/30/2016 was **\$30.6 million.**

COMMENTS AND RECOMMENDATIONS FOR MANAGEMENT

- Review of New Munis Financial System
- Disaster Recovery Planning
- Risk Assessment in Network Security
- Fixed Assets – Documentation of Donated Assets' Estimated Cost
- Loans Receivable – Valuation Documentation
- Fuel Station – Monitoring and Security
- Planning for GASB Statement No. 75 (Post Employment Benefit Liabilities) and Monitoring Ongoing Costs

RECENT HAPPENINGS AT CalPERS

- CalPERS decreased the discount rate and the long-term rate of return in December 2016 from 7.5% to 7% over the next 3 years
 - Valuation date June 30, 2016 (FY 17-18) – 7.375%
 - Valuation date June 30, 2017 (FY 18-19) – 7.25%
 - Valuation date June 30, 2018 (FY 19-20) – 7%
- Lower discount rate decreases the funded status of the pension plan
- Lower discount rate increases the unfunded liability of the pension plan
- Lower discount rate = higher required employer contribution
- Should be considered for budgeting purposes, designing fiscal policy and evaluating impact on future financial statements.

FINANCIAL REPORTING HIGHLIGHTS

- The City's **overall net position** increased by \$11.1 million, to \$382.3 million at 6/30/2016. (CAFR p. 23)
- The City's **unrestricted net position** improved by 12% to a deficit of (\$35.2) million vs. a deficit of (\$39.9) at prior year-end. (CAFR p. 23)
- **City-wide expenses** declined to \$134 million in FY 2016, from \$141.1 million in FY 2015. (CAFR p. 24)
- **Governmental Fund expenses** have been contained since 2006-07.
 - Governmental Fund expenses 2006-07 \$77.6 million
 - Governmental Fund expenses 2015-16 \$77.8 million
- The **Net Pension Liability** increased to \$106.2 million, from \$98.7 million at 6/30/2015. 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)** decreased to \$30.593 vs. \$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 financial statements, in the 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 \$.5 million, to \$28 million
- The Unrestricted General Fund balance was \$28 million, or 46% of annual expenditures
- The **Enterprise Funds** reduced their net loss before contributions and operating transfers to (\$5.3) million (compared to a net loss of (\$7.7) million in FY 2015).
 - Sanitation revenues increased by 10% while expenses decreased by 4%
 - Water revenues decreased by 9%, but expenses also decreased by 9%
 - Transit system operating loss increased to (\$6.8) million, from (\$6.0 million)
- The **Internal Service Funds** reported a deficit net position of (\$2.3) million, which is an improvement from the deficit of (\$3.2) million in FY 2015.
 - Workers' Compensation Insurance deficit improved to (\$651)K, from (\$3.2) million at 6/30/2015.
 - Liability Insurance deficit was (\$2.4) million, from (\$646)K at 6/30/2015 caused by deferring assessments to other funds for one year.

FINANCIAL REPORTING HIGHLIGHTS (CONTINUED)

- Assessed valuations of real property increased by 4.3% (CAFR p. 151)
- The City's business tax revenues have increased in each of the past 5 years (CAFR p. 163)
- The City has 503 permanent, full-time employees; compared to 607 employees in 2007 (CAFR p. 162)
- The City has experienced a positive net increase in governmental fund balances in each of the past 4 years, from an overall deficit of (\$5.8) million at 6/30/2013 to a surplus of \$4.4 million at 6/30/2016 (CAFR p. 149)
- The City's debt limit is \$622 million; it has \$-0- outstanding debt applicable to this limit. (CAFR p. 159)

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THANK YOU!