



PRESENTATION TO THE COUNCIL OF THE CITY OF SIMI VALLEY

March 25, 2019

Agenda

- Introduction and Background
- Scope of Services
- 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)
- Financial Reporting Highlights
- Required Communications to the City Council
- New Accounting/Auditing Pronouncements

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

SUMMARY OF AUDIT RESULTS

Overall Observations

The implementation of a new ERP system has been a time-consuming, challenging and critically important undertaking. Sufficiency of resources has also been a challenge in Finance Department. 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.

Financial Statements Audit

❑ **Unmodified Opinion on Financial Statements**

- The financial statements fairly present, in all material respects, the City's financial position and changes in net position
 - ✓ The supplemental combining financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

❑ **No material weaknesses and significant deficiencies were noted on Internal Control over Financial Reporting**

The Single Audit of Federal Awards

MAJOR PROGRAM:

CFDA No. 20.205 Highway Planning and Construction (\$1.6 million)

CFDA No. 14.239 Home Investment Partnership Program (HOME) (\$398 thousand)

Tested 36% of total Federal expenditures of \$5.6 million.

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

Status:

- *Fieldwork has been completed; evaluation of results is in progress*
- *Exit conference was conducted today with the program managers*
- *No material weaknesses and significant deficiencies noted on Internal Controls over the Administration of Major Federal Programs*

Financial Reporting Highlights

- The City's **overall net position** decreased by \$33M, from \$379.1M at 6/30/2017 to \$345.9 as of June 30, 2018. (CAFR p. 23)
- The City's **unrestricted deficit in net position** increased by 62% to a deficit of \$69.4M vs. a deficit of \$42.8M at prior year-end. (CAFR p. 21)
- **City-wide expenses** increased to \$162.5M in FY 2018, from \$142.9M in FY 2017. (CAFR p. 22)
- **Governmental Fund expenditures** decreased in 2017-18.
 - Governmental Fund expenditures 2017-18 \$81.5M
 - Governmental Fund expenditures 2016-17 \$86.6M
- The **Net Pension Liability** increased to \$148M, from \$133M at 6/30/2017. 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)** reported at June 30, 2018 was \$38.5 based on the latest actuarial valuation report. Beginning in fiscal year 2017-2018, the City reported this liability on the Statement of Net Position, in accordance with GASB 75.

Financial Reporting Highlights

- The City's Unrestricted **General Fund balance** (including the prudent reserve and reserves for economic recovery, retiree benefits and special programs) increased by \$0.2M, to \$28M.
- At June 30, 2018, the General Fund's unrestricted fund balance of \$28M represent 42% of annual General Fund expenditures.
- The **Enterprise Funds** net loss before contributions and operating transfers decreased to \$2.8M (compared to a net loss of \$6.5M in FY 2017).
 - Sanitation generated a net income of \$1.4M before contributions and operating transfers
 - Water generated a net income of \$1.8M before contributions and operating transfers
 - Transit system operating loss increased to \$6M from \$4.9M.
- The **Internal Service Funds** reported a positive net position of \$2M, which is a decrease of \$.3M from \$2.3M in FY 2017.
 - Workers' Compensation Insurance net position improved to \$2M from \$987K at 6/30/2017.
 - Liability Insurance net position decreased to a deficit of \$.4M, from a positive net position of \$1M at 6/30/2017.

Status of Prior year Comments and Recommendations for Management

- Loans Receivable – Valuation Documentation - *Pending*
- Planning for GASB Statement No. 75 - *Implemented*
- Written Policies and Procedures in Accordance with Uniform Guidance - *Pending*

Required Communications

- ❑ **Management's Responsibility** - Management has primary responsibility for the accounting principles used, their consistency, application and clarity. During the year, **the City adopted GASB 75, OPEB Financial Reporting, which required the City to report \$38.5 million in OPEB Liabilities in 2018.**
- ❑ **Consultations with Other Accountants** - We are not aware of any consultations by management with other accountants about accounting or auditing matters.
- ❑ **Difficulties with Management** - We did not encounter any difficulties with management while performing our audit procedures.
- ❑ **Disagreements with Management** - We encountered no disagreements with management on financial accounting and reporting matters.
- ❑ **Significant Accounting Policies** - The City's significant accounting policies are appropriate, and were consistently applied.

Required Communications (continued)

- ❑ **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** - Management has recorded all identified proposed adjustments noted during our audit .
- ❑ **Conditions of Retention** - No significant issues were discussed, or subject to correspondence, with management prior to retention.
- ❑ **Irregularities, Fraud or Illegal Acts** - No irregularities, fraud or illegal acts came to our attention as a result of our audit procedures.
- ❑ **Management Representations** - The City provides us with a signed copy of the management representation letter prior to issuance of our auditors' opinions.

New Accounting Pronouncements – Effective in Future Years

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that have effective dates that may impact future financial presentations.

GASB 83 – Certain Asset Retirement Obligations. Effective for periods beginning after June 15, 2018.

GASB 84 – Fiduciary Activities. Effective for periods beginning after December 15, 2018.

GASB 87 – Leases. Effective for periods beginning after December 15, 2019.

GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. Effective for periods beginning after June 15, 2018.

New Accounting Pronouncements – Effective in Future Years (continued)

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that have effective dates that may impact future financial presentations.

GASB 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. Effective for periods beginning after December 15, 2019.

GASB 90 – Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61. Effective for periods beginning after December 15, 2018.




QUESTIONS?

**THANK YOU FOR YOUR
TIME AND ATTENTION**

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