



Legislation Details (With Text)

File #: 12-0796 **Version:** 1 **Name:** FM - Separately Issued Financial Statements
Type: Agenda Item **Status:** Approved
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Title: Recommendation to receive and file Separately Issued Financial Statements, the Federal Single Audit, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year Ended September 30, 2011. (Citywide)

Sponsors: Financial Management

Indexes: Report

Code sections:

Attachments: 1. 100212-C-8 Auditors communication.pdf, 2. 100212-C-8 Comp Annual Fin Report.pdf, 3. 100212-C-8 Federal Single Audit Report.pdf, 4. 100212-C-8 LB Airport Enterprise Fund.pdf, 5. 100212-C-8 Mgmt ltr for CoLB.pdf, 6. 100212-C-8 RDA Annual Fin Report.pdf, 7. 100212-C-8sr.pdf

Date	Ver.	Action By	Action	Result
10/2/2012	1	City Council	approve recommendation	Pass

Recommendation to receive and file Separately Issued Financial Statements, the Federal Single Audit, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year Ended September 30, 2011. (Citywide)

Separately Issued Financial Reports and Statements

Certain City funds, joint powers authorities, and other subsidiary entities are also required to submit audited annual financial statements under separate cover, including the Water Department, Airport Enterprise Fund, and Redevelopment Agency. These separate reports are enclosed and are issued annually to meet distinct legal and financial requirements.

Federal Single Audit

Also attached is the Federal Single Audit required by the Federal Office of Management and Budget (OMB) for municipalities receiving over \$500,000 annually in federal funds. The Federal Single Audit, covering 11 major programs as well as all American Recovery and Reinvestment Act (ARRA) grant funds, resulted in the identification of two significant deficiencies, five findings and \$173,190 in questioned costs. No material weaknesses were identified. In general, this is an improvement over the audit of the previous fiscal year that resulted in two significant deficiencies, seven findings, and \$620,000 in questioned costs.

A significant deficiency is a deficiency in internal controls. One deficiency related to the number of adjusting entries made after the close of the year. A large number of year-end entries is seen as a potential weakness (even though they were correct). In this case, many of the entries resulted from the mandated dissolution of the Redevelopment Agency. The other deficiency had to do with our difficulty in recording some non-grant-funded revenues and expenses in the correct fiscal year. This primarily has to do with the challenges associated with obtaining timely information and this issue generally does not have a significant impact on any analysis or decisions that are being made.

The report also detailed five "findings." A finding represents ANY lack of compliance with OMB grant operating and/or reporting requirements. The findings are reported *whether they are significant or not*. A finding may also identify an amount of questioned costs that could, but are not be likely to, result in the repayment of amounts to the granting agencies. Findings and questioned costs were identified in the following areas:

<u>Area</u>	<u>Questioned Costs</u>	
1. Programs did not always test for compliance with the Davis-Bacon Act	\$	0
2. Indirect Technology Services costs charged to grant programs 164,754		
3. Monitoring controls ineffective for ensuring compliance	5,057	
4. Participant eligibility not always established within guidelines 3,379		
5. Final project reports were not submitted within specified limitations 0		

The City has taken steps to address these findings. However, because of the timing of when an audit is received, the issue causing the finding may not be resolved in time to prevent it from occurring in a subsequent year. The only finding with significant costs issues - the one on the methodology for charging technology services - has been resolved by suspending the allocation of Technology Services costs to grant programs, effective for Fiscal Year 2012 (FY 12).

The Auditor’s Communications with Those Charged with Governance

The City’s external auditor (KPMG) is required to prepare and submit the Auditor’s Communication with Those Charged with Governance in accordance with Statement of Auditing Standards 114 (SAS 114). “Those charged with governance” refers to the person or persons responsible for the strategic direction of the entity and the obligations relative to the accountability of such entity, including oversight of the financial reporting process. KPMG is required to communicate with those charged with governance those matters related to the financial statement audit that are, in KPMG’s professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

Management Letter

KPMG has also provided a separately issued Management Letter that provides comments, findings and recommendations related to internal controls as well as other operational matters. No material weaknesses were identified. City management has reviewed KPMG’s recommendations and Management’s response to each recommendation is included in the letter.

Action on this item is not time critical.

There is no fiscal or local job impact associated with this action.

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST

CITY MANAGER