

Presentation of 2015 Audit Results to the Honorable Mayor and City Council of the City of Cudahy

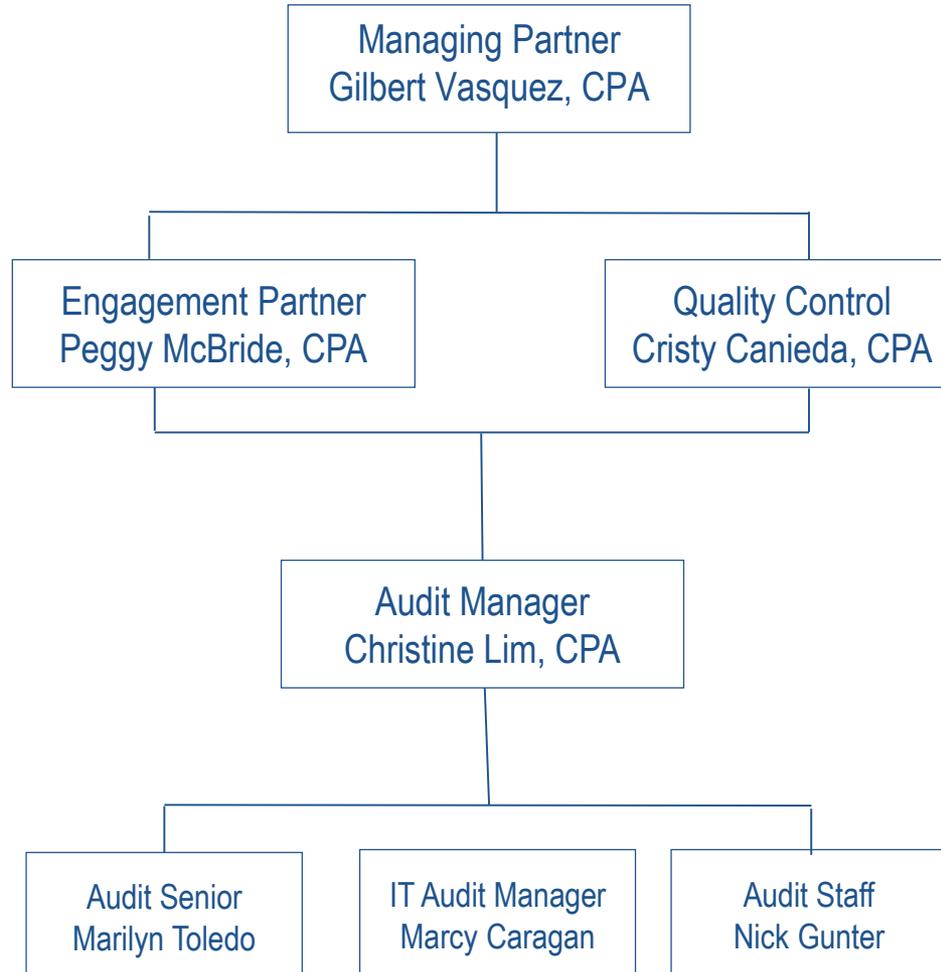


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Contact: Mr. Gilbert Vasquez, CPA ♦ Dated: April 25, 2016

AGENDA

- **The Audit Team**
- **Summary of Audit Results:**
 - ✓ **Overall Observations**
 - ✓ **Our Opinion on Financial Statements**
 - ✓ **Financial Reporting Highlights**
 - ✓ **Our GAGAS Opinion (Laws & Regulations)**
- **Vasquez & Company LLP Scope of Services**
- **Areas of Audit Focus**
- **Comments and Recommendations**
- **Required Communications to the Audit Committee**

Audit Team



SCOPE OF SERVICES

- City's Basic Financial Statements
- Report on Compliance with Laws and Regulations that could have a Direct and Material Effect on the Financial Statements
- Report on the Housing Fund Financial Statements
- Report on Compliance with the GANN Limit
- Letter of Comments to Management

OVERALL OBSERVATIONS

- The City's Finance team has been cooperative throughout the audit process. Vasquez & Co. LLP appreciates the attitude and professionalism exhibited by the City's team members.
- The City continued to improve its internal accounting control systems and refine its year-end closing and financial reporting processes.
- The City operates with a small staff in the Finance Department, yet we noted significant progress in efforts to address our prior year management letter recommendations.

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 revenues

Receivables are recorded correctly. Revenues from federal, state and local resources are properly recognized.

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

Long-term debt, and debt equivalents are properly classified between current and long-term portions, 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. **Special emphasis on implementation of New Pension Standard GASB Statement No. 68.**

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 (CONTINUED)

- We utilized a risk-based audit approach, employing sampling, analytical, reconciliation, confirmation, inspection and observation procedures
- We performed data analytics to test disbursements and general ledger transactions for unusual events, such as:
 - Gaps in check sequence
 - Transactions posting outside of business hours
 - Transactions/payments with even dollar amounts
 - Unusually large dollar payments

All identified transactions were investigated and satisfactorily resolved.

Summary of Audit Results

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

❑ UNMODIFIED “CLEAN” OPINION

- Audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*
- The financial statements fairly present, in all material respects, the City of Cudahy’s:
 - Financial position
 - Changes in financial position

FINANCIAL REPORTING HIGHLIGHTS

- ❑ The City's net position decreased from \$25.4M at 6/30/2014 to \$24.6M at 6/30/2015, primarily due to reporting of the unfunded Net Pension Liability.
- ❑ The new pension reporting standard, GASB 68, required the City to report its unfunded Net Pension Liability at 6/30/15 of \$2.1 million. (*Note 11 of the Basic Financial Statements*)
- ❑ The Net Pension Liability may increase or decrease depending on investment returns and the discount rate used to calculate present value of future benefits.
- ❑ The City expects to continue contributions to the pension plans in amounts recommended by CalPERS that will eliminate the unfunded Net Pension Liability over time.
- ❑ The City has an unfunded liability for Post Employment Benefits (OPEB) of approximately \$2.1 million as of July 1, 2014 (latest actuarial valuation report). For fiscal year 2017-18 the City will be required to record this liability on its statement of net position.

FINANCIAL REPORTING HIGHLIGHTS (CONTINUED)

- ❑ The City's General Fund balance decreased by \$60 thousand which is a significant improvement over the prior decrease of \$1.4 million, primarily because of a 19% increase in revenues and a 3% reduction in expenditures.
- ❑ The City's General fund balance of \$4,015,557 represented 53% of its FY 2015 expenditures.
- ❑ The financial statements report subsequent events regarding a settlement agreement in which the Economic Development Corporation (EDC) returned real property located at 4610 Santa Ana to the Successor Agency with the related promissory note being retired.
- ❑ The EDC financial statements report an extraordinary loss of \$16.7 million to recognize the return of all the properties from EDC to the Successor Agency pursuant to the asset transfer agreement.

REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND COMPLIANCE

- ❑ Reports on Compliance and Internal Controls
 - Material weakness and significant deficiencies – none noted
 - Noncompliance material to financial statements – none noted

COMMENTS AND RECOMMENDATIONS

Comments and Recommendations for Management

1. Increase monitoring of budgets to avoid overages (special revenue funds)
2. Timely filing of Form 700s
3. Preparation of Minutes of City Council Meetings
4. Timely year-end closing process (10 post-closing client journal entries)
5. Centralize monitoring of status of all contracts

New Accounting Standards

1. Improve risk assessment process in compliance with the California State Controller's 2015 internal control guidelines
2. Preparation for the *New Federal Uniform Guidance*
3. Planning for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

SAS 114 – Auditors’ Required Communication to Those Charged with Governance

REQUIRED COMMUNICATIONS

- Accounting policies - We find that the City of Cudahy's significant accounting policies are appropriate and management has applied its policies consistently with prior periods in all material respects.
- Accounting principles - Management has accepted primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness.
- Unusual transactions - Information audited by us has been generally verifiable, with management being appropriately neutral on the accounting propriety, policies and their application.
- Estimates - Estimates are formulated by management based on knowledge and experience about past and current events and assumptions about future events. Significant items subject to such estimates include: valuation allowances on receivables, useful lives for property and equipment, OPEB and net pension liability, self-insurance claims payable and valuation of investments.
- Audit adjustments – All proposed audit adjustments were accepted and recorded by the City. Fourteen (14) audit adjustments were proposed primarily to resolve Successor Agency accounting matters, post interfund transactions, record and adjust accounts payable, record deferrals, and close the Clara Park Expansion Fund.

REQUIRED COMMUNICATIONS

- Misstatements - Management has corrected all misstatements noted during our audit.
- Disagreements or difficulties with management – None.
- Consultations with other accounting firms - Management has advised us that there were none.
- Significant issues addressed with management prior to retention – None.
- Irregularities, fraud or illegal acts - 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.
- Independence - We confirm that we are independent of the City of Cudahy within the meaning of the independence, integrity and objectivity rules, regulations, interpretations, and rulings of the AICPA, the State of California Board of Accountancy, the Government Auditing Standards, and other regulatory agencies.

QUESTIONS?

THANK YOU!
