

City of Laguna Beach
AGENDA BILL

8

No. _____
Meeting Date: 2/4/2020

**SUBJECT: CITIZENS' AUDIT REVIEW AND MEASURE LL OVERSIGHT COMMITTEE
REPORT ON THE RESULTS OF THE FISCAL YEAR 2017-18 AUDIT**

SUMMARY OF THE MATTER:


The Citizens' Audit Review and Measure LL Oversight Committee (Audit Committee) is pleased to present its *Report on the Results of the Review of the Annual Financial Audit for the Fiscal Year Ended June 30, 2018*.

Background: The Audit Committee is comprised of seven residents with responsibilities that include a review of the results of the annual financial audit, a review of any internal control weaknesses and legal compliance issues identified in the course of the annual financial audit, and provide any necessary recommendations to the City Council. The Audit Committee met nine times between May 2019 and January 2020, including forming a subcommittee to help draft the attached report. The Audit Committee methodology includes a review of the City's Comprehensive Annual Financial Report (CAFR) and any supplemental materials, a review of the four audit compliance letters, a review of the audit plan, interviews with the auditors, discussions with City staff, and hearing input from members of the public.

The City's annual audit process begins at the end of the fiscal year on June 30. The books are reviewed by City staff and closed by the end of October; a Certified Public Accounting firm (CPA firm) reviews the City's financial reports, ledgers and internal controls from October to December; at the end of the audit, the City releases the CAFR, and the CPA firm issues its audit findings and recommendations. The CPA firm is available to meet with City Council members or members of the Audit Committee to address questions about findings or other concerns starting in February and until the Audit Committee produces its report. The Audit Committee reviews the audit report and then provides a written report of its findings to the City Council at a public meeting. The attached Audit Committee report is intended to meet this responsibility.

RECOMMENDATION: The Citizens' Audit Review and Measure LL Oversight Committee recommends that the City Council: 1) Receive and file the Citizens' Audit Review and Measure LL Oversight Committee Report on the Results of the Annual Financial Audit for Fiscal Year Ended June 30, 2018; and 2) consider implementing the Committee's recommendations.

Appropriations Requested: \$ _____

Submitted by: 
Gavin Curran, Director of Admin Services
Coordinated with: _____

Fund: _____

Attachments: Audit Committee Report

Committee 2020 Calendar

Approved: 
John Pietig, City Manager

Report on the Results of the Fiscal Year 2017-18 Audit
February 4, 2020
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In summary, the auditors expressed an “unmodified” or clean opinion of the financial statements for the fiscal year ended June 30, 2018. During the audit, the auditors did identify internal control weaknesses over bank reconciliations, capital assets, accounts payables and refundable project deposits. The Audit Committee did confirm that the city staff has implemented new internal controls to address these issues, but the success of these new internal controls will be evaluated as part of next year’s report. The Audit Committee is requesting the City Council consider the following recommendations:

1. The City implements staff responses to the audit compliance letters, including those pertaining to capital assets and reconciliations and that the City endeavor not only to establish the aforementioned policies and procedures but to ensure adherence thereto.
2. To ensure valuable staff time is committed appropriately, the City should evaluate and assess the efficacy of the current thresholds for purchasing and asset tracking by increasing limits for tracking assets (\$1,000 and \$5,000 respectively). This evaluation should include a review of similar thresholds across other regional municipalities.
3. The following prior year Audit Committee recommendations have not been implemented:
 - a. To date, the hotline has been established but procedures to follow up on calls have not been put in place, therefore, City staff should continue working to develop hotline protocols and procedures.
 - b. To date, the City has not brought forward a proposal to appoint an independent Investment Committee. The Audit Committee continues to recommend taking the necessary steps to replace the City Treasurer’s Ad Hoc Investment Committee with a formal Investment Committee appointed by the City Council similar to other committees, commission and boards.
 - c. To date, the City Treasurer continues to select the auditors to review the Treasury investment policy and investments. The Committee continues to recommend having an entity outside of the Treasury function select the firm that will conduct the review of the agreed-upon procedures of investments and monitor the results of that review.

Also, the Audit Committee is making every effort to complete the audit and Measure LL review within a reasonable amount of time. Toward that end, the Committee recently approved a calendar for 2020 with a focus on completing all reports by the end of the calendar year (Attachment B). The key dates include:

- | | |
|-------------------|--|
| April 7, 2020 | – Presentation of the FY 2018-19 Measure LL report to City Council |
| July 14, 2020 | – Presentation of the Report on the Results of the FY 2018-19 CAFR Audit Reports to City Council |
| November 17, 2020 | - Presentation of the FY 2019-20 Measure LL Report to City Council. |

The Audit Committee would like to thank the City Council for its efforts in keeping the citizens of Laguna Beach informed of the financial condition of the City and hope the City Council and the residents of Laguna will benefit from the work of this Committee. They look forward to continuing to serve the interests of the community of Laguna Beach in the coming year.

ATTACHMENT A

Committee Report

**Report on the Results of the Review of the
Annual Financial Audit
For the Fiscal Year Ended June 30, 2018**

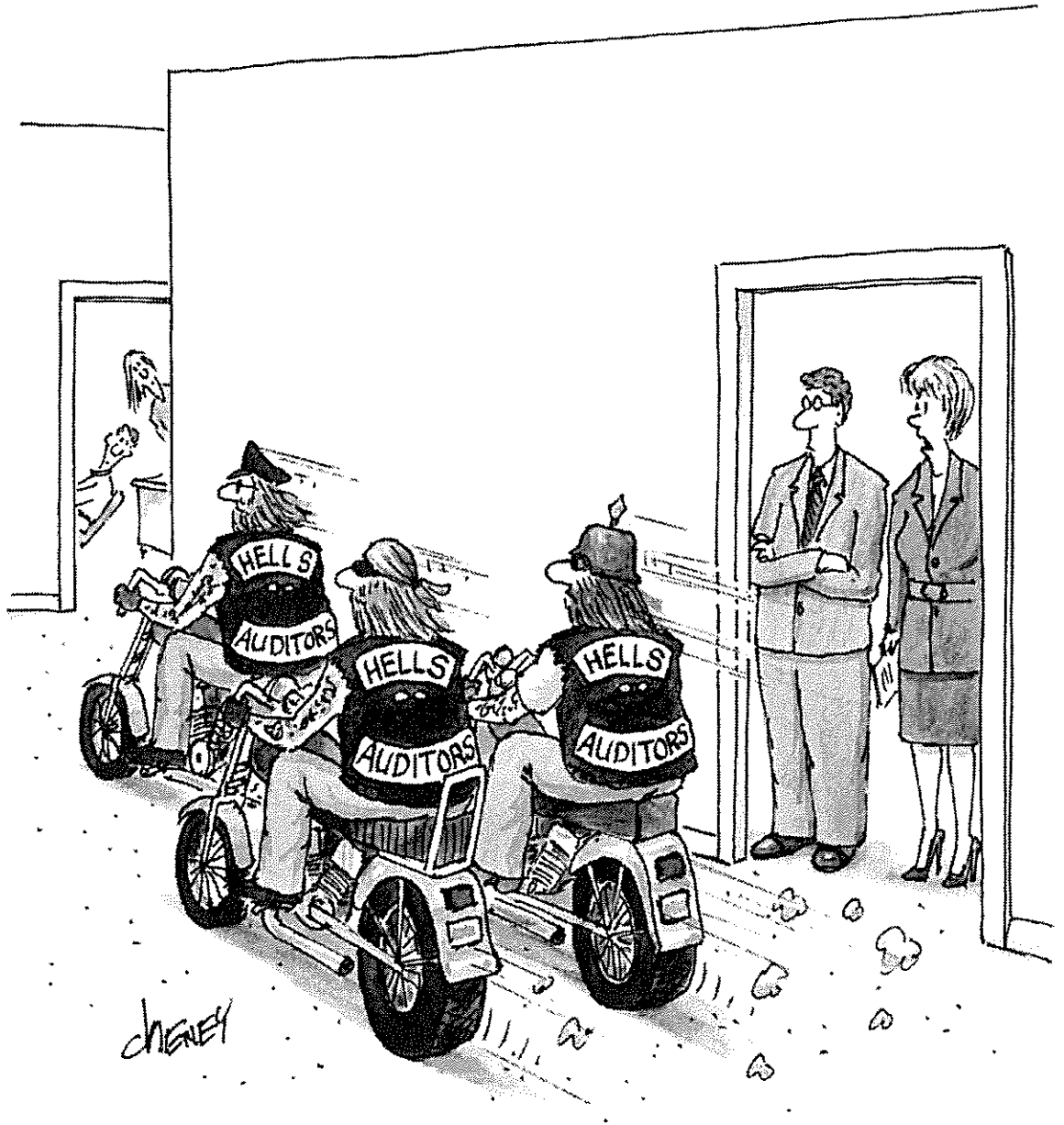


**Presented February 4, 2020
To the Laguna Beach City Council**

**Mayor Bob Whalen
Mayor Pro Tem Steve Dicterow
Councilmember Peter Blake
Councilmember Toni Iseman
Councilmember Sue Kempf**

**Report Prepared by
The Citizens' Audit Review and Measure LL Oversight Committee**

**John Thomas -- Chair
Peter Stevenson -- Vice-Chair
Glenn Gray
Julian Harvey
Matt Lawson
Anne McGraw
Charity Morsey**



"Fortunately, this only happens once a year."

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4. Review of The Annual Financial Audit, Audit Compliance Letters, Internal Control Weaknesses, Legal Compliance Issues; and Discussion with Auditors
5. Conclusion – Auditors Unmodified Opinion
6. Recommendations

Attachments

- a. Agenda Bill
- b. Minutes
- c. Resolution
- d. Audit Compliance Letter Memo
- e. Audit Compliance Letters
- f. Vavrinek, Trine, Day & Co. – Report on Applying Agreed Upon Procedures
- g. Government Finance Officers Association Best Practices

SECTION ONE – Executive Summary

Conclusion – Auditors Unmodified Opinion: The auditors have expressed an "unmodified" opinion of the financial statements for the City's fiscal year ended June 30, 2018.

Recommendations: The committee recommends that:

1. **Audit Compliance Letter Recommendations:** The City implement staff responses to audit compliance letter comments, including those pertaining to Capital Assets and Reconciliations and that the City endeavor not only to establish the aforementioned policies and procedures, but to ensure adherence thereto. Note that the audit compliance letter comments fall into two categories: "significant deficiencies" and "material weaknesses" with the difference being that a "material weakness" is of more concern. The issues identified in the audit for the fiscal year ended 6/30/2018 were not "material weaknesses." However, the issues include:
 - a. Related to capital assets to ensure the detail schedules agree with the general ledger, and that all asset classes include and reflect depreciation expense.
 - b. To review all accounts payable invoices paid after year-end to ensure they are reported in the appropriate accounting period.
 - c. To record bank reconciliation journal entries in a more timely manner; and create a schedule to clearly show that total adjusted balances from all reconciliations for all cash and investment accounts, including agency funds and recreation cash accounts, agree to the general ledger at month-end.
2. To ensure valuable staff time is committed appropriately, the city should evaluate and assess the efficacy of the current thresholds for purchasing and asset tracking (\$1,000 and \$5,000 respectively). This evaluation should include a review of similar thresholds across other local and regional municipalities.
3. The following prior year Audit Committee recommendations have not been implemented:
 - a. To date, the hotline has been established but procedures to follow up on calls have not been put in place, therefore, City staff should continue working to develop hotline protocols and procedures.
 - b. To date, the City has not brought forward a proposal to appoint an independent Investment Committee. The Audit Committee continues to recommend taking the necessary steps to replace the City Treasurer's Ad Hoc Investment Committee with a formal Investment Committee appointed by the City Council similar to other committees, commission and boards.
 - c. To date, the City Treasurer continues to select the auditors to review the Treasury investment policy and investments. The Committee continues to recommend having an entity outside of the Treasury function select the firm that will conduct the review of the agreed-upon procedures of investments and monitor the results of that review.

SECTION TWO - Purpose of the Committee and Scope of this Review

Purpose of the Committee and Scope of this Review:

As specified under "Qualifications of Appointed Public Member" in Resolution 18.009 of the City of Laguna Beach adopted February 27, 2018, this audit review committee is comprised of residents of the City of Laguna Beach and the purpose of the committee shall include, as specified in the adopted resolution:

1. Participating in the selection of the City's external financial auditors;
2. Reviewing the results of the annual financial audit;
3. Review any internal control weaknesses and legal compliance issues identified in the course of the annual financial audit and provide any necessary recommendations to the City Council.
4. Reviewing annually the expenditures of the Measure LL Fund and providing a subsequent public report for distribution to the City Council

Further, according to the best practices statement for Audit Committees of the Government Finance Officers Association:

An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.

It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors.

This is consistent with the purpose as specified in the adopted ordinance.

Item #1 above, selection of the City's external auditors was completed prior to expansion of the role of this committee, and item #4 has been addressed in separate reports pertaining to Measure LL dated February 27, 2018, and June 4, 2019.

Therefore, this report addresses duties 2 and 3 above.

- Review the results of the annual financial audit;
- Review of internal control weaknesses and legal compliance issues identified in the course of the annual financial audit, and provide any necessary recommendations to the City Council.

SECTION THREE - Methodology - Review of The Annual Financial Audit, Internal Control Weaknesses, and Legal Compliance Issues; Review of Audit Compliance Letters; Discussions with Auditors; and formation of Sub-committee

Methodology:

The full committee met nine times between May, 2019, and January, 2020, plus a sub-committee was formed to draft this report. Members of the public attended a number of these meetings and provided input.

The members of the committee:

1. Reviewed the Certified Annual Financial Report including
 - a. The Basic Financial Statements
 - b. Fund Financial Statements
 - c. Proprietary Funds
 - d. Fiduciary Funds
 - e. Notes to Basic Financial Statements
2. The review included supplemental material contained in the Certified Annual Financial Report including:
 - a. The City Manager and Director of Administrative Services letter of transmittal to the City Council and Citizens of the City of Laguna Beach
 - b. Government Finance Officers Association Award
 - c. The Independent Auditor's Report also known as the opinion letter
 - d. Supplementary Information Section
 - e. Management's Discussion and Analysis
3. Reviewed the four Audit Compliance letters provided by the Auditors White Nelson Diehl Evans LLP.
 - a. Agreed-Upon Procedures Applied to Appropriations Limit Worksheet No.6
 - b. Report on Compliance and Other Matters and on Internal Controls ("GAS" Letter)
 - c. SAS-114 Report
 - d. Management Letter (SAS 115)
4. Reviewed the audit plan prepared by White Nelson Diehl Evans LLP for the fiscal year ended June 30, 2018
5. Reviewed the four Audit Compliance letters from the White Nelson Diehl Evans LLP for the prior fiscal year ended June 30, 2017.
6. Discussed with the auditors the most recent review of Agreed Upon procedures pertaining to the Treasury function by Vavrinek, Trine, Day and Co. LLP
7. Reviewed two examples of the Monthly City Treasurer's Report.
8. The committee and/or subcommittee met with and/or had conversations with:
 - a. Staff
 - b. Members of the audit firm White Nelson Diehl Evans LLP
 - c. The City Treasurer, and
 - d. City Council liaisons to the committee.
9. Heard and considered input from members of the public attending committee meetings
10. Reviewed information in addition to the Certified Annual Financial Report, including the Government Finance Officers Association General Purpose Checklist and the City budget, for clarification or perspective, but that information was considered beyond the scope of the committee's responsibility and is not included in the report.
11. The subcommittee held three conferences regarding the audited financial statements, Audit Compliance letters, and other issues with the auditors without City staff being present.
12. Wrote a report to be presented to the City Council and citizens of Laguna Beach with the committee's findings and recommendations.

SECTION FOUR - Review of The Annual Financial Audit, Audit Compliance Letters, Internal Control Weaknesses, Legal Compliance Issues, and Discussion with Auditors

The City's financial statements were audited by White Nelson Diehl Evans LLP.

The fiscal year ended June 30, 2018 was the second year of the three-year contract for auditing services between the City and White Nelson Diehl Evans LLP.

The City's letter of transmittal includes the following statements:

- As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.
- The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2018, were fairly presented in conformity with GAAP (generally accepted accounting principles.)

The Independent Auditor's Report by White Nelson Diehl Evans LLP includes the statement:

- **Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.
- Award of the Certificate of Achievement for Excellence in Financial Reporting. The City has been awarded the Certificate of Achievement for Excellence in Financial Reporting award for the fiscal year ended June 30, 2018, and for a number of earlier years. The certificate recognizes the achievement of a high standard in financial reporting.
- In addition to the audit of the City's financial statements themselves, the auditors also provided four audit compliance letters, the purpose of which is recapped below and more fully explained in the attached January 12, 2019 memo from the City Manager to the City Council.

In the context of its responsibility to review internal control weaknesses and legal compliance issues identified in the course of the annual financial audit, and provide any necessary recommendations to the City Council, the committee reviewed the White Nelson Evans & Diehl Evans LLP Audit Compliance letters and the Vavrinek, Trine, Day & Co. Report on Applying Agreed Upon Procedures

Audit Compliance Letters

1. Agreed-Upon Procedures Applied to Appropriations Limit Worksheet No.6

Purpose:

This report outlines specific procedures the auditors are required to do concerning the City's Appropriations Limit Calculation each year.

Committee Comment:

While the auditors clearly state that they were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion of the Appropriations Limit Worksheet No. 6 , and make no representation regarding the sufficiency of the procedures that they did perform, the auditors did perform three procedures as further described in their letter and found no exceptions.

2. Report on Compliance and Other Matters and on Internal Controls ("GAS" Letter)

Purpose:

This report is required to be issued for all audits performed in accordance with *Government Auditing Standards*. The standards require that the auditors disclose material issues of noncompliance as well as material weaknesses and significant deficiencies in internal control over financial reporting that might have come to the auditors' attention during the audit process.

For Background – In the sub-committee's conferences with the auditors, the auditors explained that the comments in the GAS letter pertaining to management issues are considered more consequential than those in other Audit Compliance letters and resolution is expected. The issues identified in the audit for the fiscal year ended 6/30/2018 were not "material weaknesses."

It should also be noted that the numbers in the final audited financial statement reflect corrections to any of the auditor comments that are numerical issues.

Committee Comment:

While the scope of the audit assignment does not include an opinion of the effectiveness of the City's internal control, the letter does distinguish between significant deficiencies and material weaknesses (which are considered more severe) and states that "during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency."

Excerpts from the "GAS" letter:

Auditors Comments and Recommendations:

a) Capital Assets

"During our review of capital assets, we noted the following: (1) some of the roll-forward beginning balances did not agree to the prior year ending balances, (2) some detail schedules did not agree to the general ledger, and (3) some asset classes were missing depreciation expense since they were not included in the City's capital asset software system. Audit adjustments were needed to correct these issues. We recommend the City develop policies and procedures surrounding capital assets to ensure the detail schedules agree to the general ledger and that all asset classes have depreciation expense."

Management's Response

Capital Assets

A written capitalization policy has been developed and is pending final review by City departments. After the department review, the policy is expected to be formally incorporated into the City's Administrative Policy. Also, in Fiscal Year 2018-19, the Finance staff will migrate assets tracked using Microsoft Excel into the Springbrook fixed asset system. These additional actions will ensure that fixed assets details agree to the general ledger and that depreciation expense is correctly calculated for all asset classes.

Related sections of the two letters are excerpted below.

Comment from prior year: December 28, 2017 "GAS" letter for FYE 6/30/17 regarding Capital Assets:

Auditors' Comment and Recommendation

Capital Assets

We identified certain capital improvement projects, where construction was completed and the projects were placed in service; however, the asset value had not been transferred from the Capital Asset classification "Construction in Progress" (CIP) to the appropriate Capital Asset category (e.g. Infrastructure, improvements, etc.). As a result, approximately \$9.7 million of CIP projects were reclassified to various asset categories. An important part of financial reporting is ensuring the accuracy of capital asset classifications. As these projects are completed, the assets should be transferred to the appropriate capital asset category and depreciation of the capital assets should commence. We recommend that during the year, City departments review and/or determine if CIP projects are completed and the Accounting Division is promptly notified to ensure accurate financial reporting and proper accounting of capital project inventory.

Management's Response

Capital Assets:

Over the next year, the City Finance Staff will implement procedures to have City departments review the construction in progress projects listing and determine if the projects are completed and should be reclassified to the appropriate asset category.

Comment from current year: January 30, 2019 "GAS" letter (for FYE 6/30/18) regarding Capital Assets:

Auditors' Comment and Recommendation

Capital Assets

During our review of capital assets, we noted the following: (1) some of the roll-forward beginning balances did not agree to the prior year ending balances, (2) some detail schedules did not agree to the general ledger, and (3) some asset classes were missing depreciation expense since they were not included in the City's capital asset software system. Audit adjustments were needed to correct these issues. We recommend the City develop policies and procedures surrounding capital assets to ensure the detail schedules agree to the general ledger and that all asset classes have depreciation expense.

Management's Response

Capital Assets:

A written capitalization policy has been developed and is pending final review by City departments. After the department review, the policy is expected to be formally incorporated into the City's Administrative Policy. Also, in Fiscal Year 2018-19, the Finance staff will migrate assets tracked using Microsoft Excel into the Springbrook fixed asset system. These additional actions will ensure that fixed assets details agree to the general ledger and that depreciation expense is correctly calculated for all asset classes.

Committee Comment:

Though there was a comment in the December 28, 2017 "GAS" letter regarding Capital Assets and the fiscal year ended 6/30/2017, the issues mentioned in the GAS letter by the auditors dated January 30, 2019 regarding the fiscal year ended 6/30/2018 were somewhat different. However, though the specific comments differed, the general issue of depreciation expense recurred.

In response to a question of the auditors about whether the issue has recurred, the auditors responded that the issues are somewhat different, but while the causes are somewhat different, what recurred is the issue of treatment of depreciation expense. The committee asked the auditors if the response in last year's letter had been implemented to the satisfaction of the auditors, and the auditors replied that the City is addressing the issue and the auditors will follow-up in the next audit. The auditors also indicated the City did not to include "Contributed Capital" and therefore did not depreciate it either. The City tracks that separately, which isn't necessarily bad practice – it just needs to be included.

In essence, a depreciation related issue has recurred, though the specifics are different. Never-the-less, the City's response is that the staff is addressing the issue, and the auditors will follow up in the next audit.

Further, the committee believes that having the means to accurately track the City's approximately \$300 million in capital assets throughout their useful lives is needed to provide policy makers with adequate data to ensure that the City is in a position to fund timely repairs to and replacement of critical systems and infrastructure.

Auditors Comments and Recommendations:

b) Accounts Payable

"During our search for unrecorded liabilities, we noted that the City recorded an expense and a payable for invoices attributable to the next fiscal year. We recommend the City develop policies and procedures to review all invoices paid after year-end for accrual to verify they are recorded in the appropriate accounting period."

Management's Response

Accounts Payable

The Finance Division will review its procedures regarding the identification of year-end accruals. However, this error appears to be an isolated incident that existing internal controls should prevent in the future.

Committee Comment:

In response to a question of the auditors as to whether they felt the answer was responsive, the auditors said it was but the auditors will follow up to see if it recurs in the next audit.

Auditors Comments and Recommendations:

c) Bank Reconciliations

"During our review of bank reconciliations, we noted that the bank reconciliations ending balances did not agree to the general ledger and required further investigation and audit adjustments to correct. We recommend the City develop policies and procedures to do the following: (1) record bank reconciliation journal entries in a timely manner and (2) develop a schedule that clearly shows how the total adjusted balances from all the bank reconciliations for all cash and investment accounts, including agency fund and recreation cash accounts, agree to the general ledger balance at month-end."

Management's Response

This comment was related to several checks voided in Fiscal Year 2018-19 that impacted cash in Fiscal Year 2017-18. However, the June 2018 bank reconciliation was not updated to include this reconciling item. The Finance staff has implemented a new procedure to perform a secondary review of all bank reconciliations. This new procedure is designed to reconfirm that the adjusted balance from all bank reconciliations matches the general ledger and capture any changes to the monthly cash balances that may have occurred after the first review of the bank reconciliations.

Committee Comment:

Though there was a comment in last year's letter regarding Bank Reconciliations, and the description of the surface issue is the same: "the bank reconciliations ending balances did not agree to the general ledger" – the auditors agreed that the underlying issues were different from the issue discussed this year.

As discussed in management's response, one contributing factor for the reconciliation issue for FYE 6/30/2018 was that several checks written prior to the end of the 6/30/2018 fiscal year were voided and rewritten after the end of the fiscal year. Though there was no change in the actual cash position, the sequence created a timing issue resulting bank reconciliations ending balances not agreeing with the general ledger.

The auditors stated that best practice is to reconcile within 30 days. The City did not reconcile within 30 days for the period ended June 30, 2018. The auditors commented that most cities they audit (which are generally larger and tend to have larger finance staffs) do reconcile within 30 days. In response to a question from the committee about the order of magnitude, the auditors responded that prior to correction, the order of magnitude was: \$105,000 while the total cash position of the City was at that time \$105,000,000. So, the order of magnitude prior to correction was 1/10 of 1%. When asked in follow-up how common this is among municipalities that WDNE audits, the auditors replied: "Not common."

As discussed in the management response, the City is working on changes to avoid recurrence, but, as the auditors commented, the City's efforts have not been completed. The auditors will follow-up in the next audit.

Compliance and Other Matters

The letter includes the statement "we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements" and, without expressing an opinion, further stated "our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*."

3. SAS-114 Report

Statement on Auditing Standards No. 114 was issued to provide those charged with governance a direct communication link with the external auditors at the planning phase of the audit and the conclusion of the audit. The standard requires the auditors to communicate about eight different issues with those charged with governance. The standard does not require how this communication is provided so it is up to the auditors to choose how to comply.

White Nelson Diehl Evans LLP practice has been to comply with the standard by making these communications in writing. For fiscal year 2018, the auditors sent the Council a letter during the planning phase of the audit dated May 2, 2018 and have complied with the remainder of the reporting requirements with this letter issued with the Comprehensive Annual Financial Report.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

The letter includes the following selected comments:

"...in fiscal year 2017-2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of this standard required retrospective application resulting in a reduction of previously reported net position."

"The Other Post-Employment Benefit Plan (OPEB) expense, total OPEB liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's OPEB plan are based (on) several key assumptions that are set by management with the assistance of an independent third-party actuary. These key assumptions include anticipated investment rate of return, health care cost trends, mortality and certain amortization periods."

"The most sensitive disclosures affecting the financial statements were reported in Note 6 regarding the City's claims payable, Note 11 regarding the City's other post-employment benefits plan, Note 14 regarding the CalPERS defined benefit plan, Note 17 regarding related party transactions, and Note 19 regarding the restatement of prior year financial statements."

Topics addressed in the letter include: Significant Audit findings; Qualitative Aspects of Accounting Practices including sensitive estimates; Difficulties Encountered in Performing the Audit; Corrected and Uncorrected Misstatements; Disagreements with Management; Management Representations; Management Consultations with Other Independent Accountants; Other Audit Findings or Issues; Other Matters; Upcoming Changes in Accounting Standards and Regulatory Updates; Procurement Rules under Uniform Guidance; Debt Management Policy.

Topics addressed in the letter with selected comments include:

- 1) Significant Audit findings
 - a) Qualitative Aspects of Accounting Practices including sensitive estimates;
 - i) Auditors noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.
 - ii) All significant transactions have been recognized in the financial statements in the proper period.
 - iii) The financial statement disclosures are neutral, consistent, and clear.
 - b) Difficulties Encountered in Performing the Audit;
 - i) Auditors encountered no significant difficulties in dealing with management in performing and completing our audit.
 - c) Corrected and Uncorrected Misstatements: ...the following material misstatements detected as a result of audit procedures were corrected by management:
 - i) Adjust the general ledger cash accounts to agree to the bank reconciliations.
 - ii) Record a decrease to accounts payable and expenditures for invoices attributable to the next fiscal year.
 - iii) Adjust the general ledger to agree amounts to the capital asset detail records.
 - iv) Record depreciation expense for certain capital asset categories, such as contributed capital.
 - v) Adjust the beginning net position to agree to the prior year audited financial statements.
 - d) Disagreements with Management; None
 - e) Management Representations: Requested representations were provided by Management in its management representation letter dated January 30, 2019
 - f) Management Consultations with Other Independent Accountants; In some cases, management may decide to consult with other accountants to obtain a "second opinion" on certain situations. To the auditors' knowledge, there were no such consultations with other accountants.
 - g) Other Audit Findings or Issues; None noted
- 2) Other Matters: Describes additional activities by auditors without expressing opinion.
- 3) Upcoming Changes in Accounting Standards and Regulatory Updates;
 - a) Procurement Rules under Uniform Guidance:
 - i) Commencing with the fiscal year 2018-2019 audits, auditors will request the written policies for all single audits and reviewing the procurement policies and procedures for compliance with the Uniform Guidance procurement rules.
 - b) Debt Management Policy:
 - i) Effective January 1, 2017, SB 1029 requires issuers of public debt to certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies.
 - ii) A debt management policy establishes conditions for use of debt, to ensure that debt capacity and affordability are adequately considered, to minimize interest and issuance

costs, to maintain the highest possible credit rating, to provide complete financial disclosure and reporting, and to maintain financial flexibility.

Committee Comments:

Regarding 1f – while this may not be considered a “second opinion”, Vavrinek, Trine, Day & Co. provided a Report on Applying Agreed Upon Procedures.

Regarding 3b - The City adopted a debt policy on June 4, 2019, after the close of fiscal year 6/30/2018.

4. Management Letter (SAS 115)

Statement on Auditing Standards No. 115 requires the auditors communicate in writing material weaknesses and significant deficiencies in internal control that are identified during the audit process. The auditors are given the option to report other matters of internal control (i.e. “control deficiencies” or “best practices”) either verbally or in writing. White Nelson Diehl Evans LLP decided to issue their recommendations in writing in the City’s management letter.

The Management Letter states:

“This letter does not affect our report dated January 30, 2019, on the financial statements of the City. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies.”

“...we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.”

“Our consideration of internal control...was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.”

The Management Letter included recommendations from White Nelson Diehl Evans LLP regarding capitalization policy and deposits. These items are listed below. In each case, the City Staff response follows.

Capitalization Policy

Auditors' Comment and Recommendation

We recommend that the City adopt a written capitalization policy establishing thresholds for what is considered a capital asset addition and what is considered an expense. In addition, the policy should detail the procedures for additions and deletions of capital assets and the related documentation required.

Management's Response

A written capitalization policy has been developed and is pending final review by City Departments. After this final review, the policy is expected to be formally incorporated into the City’s Administrative Policy.

- Committee note: This recommendation was made in the management letter last year at which time, Management’s Response was: “Over the next year, the Finance Division will review it

procedures related to the recording of fixed assets and adopt a written capitalization policy establishing thresholds and procedures for additions and deletions of capital assets." As reflected in Management's Response above, a policy has been developed and is pending final review.

Deposits

Auditors' Comment and Recommendation

The City collects deposits from developers and others that are typically refundable upon satisfaction of certain City terms. In some cases, the depositor forfeits the deposit, which the City would then record as revenue. During our review of deposit payable accounts, we noted that some deposit balances that are older than five years, which indicates that the deposit may need to be refunded or recognized as revenue. We recommend the City analyze its outstanding deposits payable balances to determine the true balance of deposits payable that constitutes refundable deposits. Status of old deposits should be researched and adjusted if necessary.

Management's Response

The Finance Division is working with the Community Development Department to develop a procedure to review annually a sample set of developer deposits older than five years to verify if the deposit should be refunded, remain, or recognized as revenue. Also, the Finance Division is working with Community Development to perform a comprehensive review of developer deposits every five years. This review is expected to begin in the Fiscal Year 2019-20.

Committee Comment:

This recommendation was made in the management letter last year at which time, Management's Response was: City Staff Response: "Staff will review deposit balances annually and verify that old deposits have been refunded or adjusted accordingly." As reflected in Management's Response above, the Finance Division is working with the Community Development Department to develop procedures for annual review of a sample set and, at five-year intervals, to perform a comprehensive review of developer deposits beginning with the fiscal year 2019-2020.

In response to questions from the sub-committee, the auditors stated they felt the management responses to the auditors' comments in the Management (SAS 115) Letter were adequate and that level of detail in the responses was adequate. The auditors did note that they do not comment on adequacy of responses unless they are notably deficient.

- The committee also reviewed the Vavrinek, Trine, Day & Co. Report on Applying Agreed Upon Procedures

Vavrinek, Trine, Day & Co. – Report on Applying Agreed Upon Procedures

In addition to the audit performed by White Nelson Diehl Evans LLP, the City Treasurer has contracted for an Independent Accountants' Report on Applying Agreed-upon Procedures by Vavrinek, Trine, Day & Co. to perform a number of [procedures outlined in the letter.

The only exceptions noted pertained to the investment report for the month ended March 31, 2018, and pertained to (5d) balances traced to a third party bank (Bank of America) where there was a bank reconciliation issue and (5f) regarding a calculation error in the Federal Agency Securities long term and short term balances.

City Treasurer Response:

5d: The bank reconciliation for the recreation account showed a different balance than that reported in the general ledger at March 31, 2018. The same finding was noted as a significant deficiency in internal controls during the annual audit on June 30, 2017 and the Finance Staff stated that the account would be reconciled in

their December 28, 2017 response. However, the Finance Staff reconciled the account as of June 30, 2018 but has indicated that they plan to reconcile the account quarterly.

Also, an account that existed on March 31, 2018 called Laguna Beach Honor Guard was not in the General Ledger and it was not opened under the City of Laguna Beach Taxpayer Identification number by the City Treasurer. It was added to the general ledger on June 20, 2018.

The general ledger must be used to produce the Investment Report that is required by the Investment Policy. At March 31, 2018 it did not accurately report cash in the funds nor the Bank of America accounts. The City Manager was notified and the notification was copied to the City Council, City Attorney and Director of Finance and or the Director of Administrative Services. Subsequent investment reports were modified to disclose the difference by including the Bank of America bank statement balances and the general ledger book balances reflected in the Investment Report to fully disclose fund balances to the report reader. Additionally, a footnote was added to alert the reader of the Investment Report to the matter.

5f: The City Treasurer agreed that a security that will mature in less than a year was inadvertently not moved to the short-term classification. An Excel spreadsheet formula correction was made to move the security from the long-term to the short-term classification.

Committee Comment:

The committee discussed these issues as well as the report being done by a different firm with the WDNE auditors. In response to the question of whether the exceptions noted in paragraphs 5d and 5f of that letter were of concern, the auditors answered: "Yes – the issue pertained to reconciliation which was a concern expressed in the GAS letter discussed above." When asked; "Is it better to have such a report performed by the firm doing the City audit? Or is it better to have the report done by a different firm?" The auditors answered: "Normally, the same firm would do both which may be a more cost-efficient approach. Also, the firm conducting the overall audit may be more familiar with the City than a firm brought in for the one purpose, though in this case VTD had been a prior City auditor and should also be familiar with the City's finances."

Internal Control Weaknesses

The accounting firm White, Nelson, Diehl and Evans LLP (WNDE) submitted a letter to the City (highlighted above) dated January 30, 2019 entitled: "Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAS)." In this letter, WNDE described the scope of their audit included the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach (City) for the year ended June 30, 2018.

In terms of internal control, WNDE clearly stated their audit was not designed to identify all deficiencies in internal control; rather, WNDE only considered the City's internal control over its financial reporting. Subsequently, WNDE's assessment of the City's internal control was used solely to provide opinions on the City's financial statements and not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Three key terms appear in the audit related to internal control, and descriptions of each was provided by WNDE:

1. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
2. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.
3. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Committee Comment:

Considering the scope of the audit's examination of internal control limited to the City's financial reporting, while WNDE did not identify any deficiencies in internal control which WNDE considered material weaknesses, they did identify a deficiency in internal control which WNDE categorized as a significant deficiency. Specifically, WNDE's audit resulted in audit adjustments to the general ledger in the following categories:

A. Capital Assets

- (i) Some roll-forward beginning balances did not agree to the prior year balances;
- (ii) Some detail schedules did not agree to the general ledger; and
- (iii) Some asset classes were missing depreciation expense since they were not included in the City's capital asset software system.

Based on these identified discrepancies, adjustments were required by the City to make necessary corrections. WNDE recommended the City develop policies and procedures related to capital assets to ensure the detail schedules agree with the general ledger, and that all asset classes include / reflect depreciation expense.

B. Accounts Payable

- (i) Certain liabilities (an expense and a payable) were recorded for the incorrect fiscal year accounting period.

WNDE recommended the City develop policies and procedures to review all invoices paid after year-end to ensure they are reported in appropriate accounting period.

C. Bank Reconciliation

- (i) Discrepancies between ending balances of bank reconciliations and the general ledger required additional investigation and subsequent audit adjustments to make necessary corrections.

WNDE recommended the City develop policies and procedures to accomplish the following: (1) record bank reconciliation journal entries in a more timely manner; and (2) create a schedule to clearly show that total adjusted balances from all reconciliations for all cash and investment accounts, including agency fund and recreation cash accounts agree to the general ledger at month-end.

Management Response

To each of the items outlined above related to significant deficiencies, the City provided a response:

- A. Capital Assets: The City developed a written capitalization policy, and effective FY '18-'19, committed to migrating tracked assets from Excel to the "Springbrook" fixed asset system to ensure detail schedules agree to the general ledger and that depreciation expense is correctly calculated for all asset classes.
- B. Accounts Payable: The City indicated the identified discrepancy in the audit was apparently an isolated incident which current internal controls should prevent in the future, but committed to reviewing its procedures related to year-end accruals.
- C. Bank Reconciliation: The City indicated the discrepancy resulted from voided checks in FY '18-'19 which were not reflected in the June 2018 bank reconciliation. The Finance staff has since implemented a new procedure to perform a secondary review of all bank reconciliations to ensure the adjusted balance matches the general ledger.

In a separate letter dated January 30, 2019 on the topic of internal control unrelated to the City's financial statements, WNDE provided the City suggestions for consideration. In this letter, WNDE indicated their "comments and recommendations were intended to improve the internal control or result in other operating efficiencies." The recommendations provided by the auditors fell within two categories: Capitalization Policy and Deposits. The auditors' suggestions and the City's responses related to those two categories are included below:

Capitalization Policy: WNDE recommended the City adopt a written capitalization policy establishing thresholds for what is considered a capital asset addition and what is considered an expense. Further, WNDE indicated this policy should include procedures for additions and deletions of capital assets as well as related documentation. In response, the City developed a written capitalization policy as recommended.

Deposits: After identifying deposits from developers, the balances of some of which were more than five years old, WNDE recommended the City analyze its outstanding deposits payable balances to determine whether the deposits should either be refunded or considered revenue. In response, the City's Finance Division along with the Community Development Department worked together to develop a procedure to review annually a sample set of deposits which were five years or older, and to conduct a review of developer deposits every five years. It is anticipated this review will be initiated this fiscal year ('19-'20).

Committee Conclusions Regarding Internal Controls:

The audit committee notes that while the City's stated efforts in terms of establishing more stringent policies and procedures are laudable, some of the identified discrepancies have recurred. Specifically, while the underlying causes were somewhat different, discrepancies related to the treatment of asset depreciation expense were identified via audit both in FY '16-'17 and FY '17-'18. In terms of bank reconciliations, the auditors made it clear when interviewed by the subcommittee that best practice recommends bank reconciliations be conducted within 30 days. WNDE also indicated it is the standard among municipal governments it audits to reconcile every 30 days, but the City does not consistently meet that standard. In terms of the impact this inconsistent regular reconciliation creates, however, the auditors pointed out the discrepancy amounted to approximately \$105,000, roughly one tenth of one percent of the City's total cash of \$105 million. Moreover, the audit resulted in the full amount of the \$105,000 discrepancy being correctly accounted for.

Notwithstanding that the upcoming financial audit will include an assessment of the City's performance related to its stated responses to the discrepancies outlined, the committee's position is that the City endeavor not only to establish the aforementioned policies and procedures, but to ensure adherence thereto.

Compliance

A component of the GAS letter in achieving reasonable assurance whether the City's financial statements are free from material misstatement, WNDE also tested the City's compliance with certain provisions of law, regulations, contracts and grant agreements – noncompliance with which could have a material effect on financial statement amounts. The auditors found "...no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards."

- As described under the purpose and methodology sections of this review, the committee and/or subcommittee met with and/or had conversations with the auditors. Topics discussed with the auditors included, and the questions and answers follow:

Questions for auditors:	Response from Auditors:
Filename Questions for Auditors v27 – Reflects Auditor calls 10/18/2019, 10/25, /2019, and 11/1/2019.	
Audit Plan Letter	
1. Audit Plan Letter: <ol style="list-style-type: none"> Did the auditors follow the audit plan in the May 2, 2019 letter? Does the audit conform to the plan? Were there any issues of difficulties in conducting the audit per that plan? Was anything in that plan not accomplished? 	Yes Yes No difficulties, but various items were reported. Note comments in the GAS letter No.
Audit Compliance Letters	
2. WNDE – Audit Compliance Letters - Letter by Letter detail to follow <ol style="list-style-type: none"> Agreed Upon Procedures (Gann) 	

<ul style="list-style-type: none"> b. Management Letter (Auditing Standards No. 115) c. Report on Compliance – Government Auditing Standards (GAS) d. SAS-114 Report <p>VTD – Report on Applying Agreed Upon Procedures</p>	
<p>3. In general –</p>	
<ul style="list-style-type: none"> a. Were staff responses to comments and recommendations in the management letters adequate? b. Was level of detail in management responses adequate? c. Letter by Letter detail to follow 	<p>Yes – appropriate</p> <p>Okay – Appropriate -- Auditors will follow up in FYE 2019 audit</p>
<p>4. Agreed Upon Procedures (Gann) –</p> <ul style="list-style-type: none"> a. No questions b. Any comments from auditors? 	<p>No comments from auditors – This is simply an appropriations calculation.</p>
<p>5. Management Letter (Auditing Standards No. 115)</p> <p>The Management letter included recommendations regarding Capitalization Policy and Deposits.</p> <ul style="list-style-type: none"> a. Were management's responses adequate? b. Was level of detail adequate? 	<p>Yes</p> <p>Yes</p> <p>The auditors said they do not comment on adequacy of responses unless they are notably deficient.</p>
<p>6. Report on Compliance – Government Auditing Standards (GAS)</p> <p>For Background -- The auditors explained that the comments in the GAS letter pertaining to management issues are considered more consequential than those in other Audit Compliance letters and resolution is expected.</p> <p>The Report on Compliance and Other Matters and on Internal Controls noted three significant deficiencies:</p> <p>a. Capital Assets:</p> <p>Though there was a comment in the December 28, 2017 "GAS" letter regarding Capital Assets and the fiscal year ended 6/30/2017, the issues mentioned in the GAS letter by the auditors dated January 30, 2019 regarding the fiscal year ended 6/30/2018 were somewhat different. However, though the specific comments differed, the general issue of depreciation expense recurred. Related sections of the two letters are excerpted below.</p> <p><i>Comment from prior year: December 28, 2017 "GAS" letter for FYE 6/30/17 regarding Capital Assets:</i></p> <p>Auditors' Comment and Recommendation</p>	<p>Note: The numbers in the final audited financial statement reflect corrections to any of the following that are numerical issues.</p> <p>The auditors also clarified the difference, as explained in the Gas letter, between a "significant deficiency" versus a "material weakness." The essence of the difference is that a "material weakness" is of more concern. The issues identified in the audit for the fiscal year ended 6/30/2018 were not "material weaknesses."</p>

Capital Assets

We identified certain capital improvement projects, where construction was completed and the projects were placed in service; however, the asset value had not been transferred from the Capital Asset classification "Construction in Progress" (CIP) to the appropriate Capital Asset category (e.g. Infrastructure, improvements, etc.). As a result, approximately \$9.7 million of CIP projects were reclassified to various asset categories. An important part of financial reporting is ensuring the accuracy of capital asset classifications. As these projects are completed, the assets should be transferred to the appropriate capital asset category and depreciation of the capital assets should commence. We recommend that during the year, City departments review and/or determine if CIP projects are completed and the Accounting Division is promptly notified to ensure accurate financial reporting and proper accounting of capital project inventory.

Management's Response

Capital Assets:

Over the next year, the City Finance Staff will implement procedures to have City departments review the construction in progress projects listing and determine if the projects are completed and should be reclassified to the appropriate asset category.

Comment from current year: January 30, 2019 "GAS" letter (for FYE 6/30/18) regarding Capital Assets:

Auditors' Comment and Recommendation

Capital Assets

During our review of capital assets, we noted the following: (1) some of the roll-forward beginning balances did not agree to the prior year ending balances, (2) some detail schedules did not agree to the general ledger, and (3) some asset classes were missing depreciation expense since they were not included in the City's capital asset software system. Audit adjustments were needed to correct these issues. We recommend the City develop policies and procedures surrounding capital assets to ensure the detail schedules agree to the general ledger and that all asset classes have depreciation expense.

Management's Response

Capital Assets:

A written capitalization policy has been developed and is pending final review by City departments. After the department review, the policy is expected to be formally incorporated into the City's Administrative Policy. Also, in Fiscal Year 2018-19, the Finance staff will migrate assets tracked using Microsoft Excel into the Springbrook fixed asset system. These additional actions will ensure that fixed assets details agree to the general ledger and that depreciation expense is correctly calculated for all asset classes.

i. Has the issue recurred?

ii. Has the response in last year's letter been implemented to the satisfaction of the auditors?

The committee asked a follow-up question about depreciation

The issues are somewhat different, but while the causes are somewhat different, what recurred is the issue of treatment of depreciation expense.

The City is addressing the issue and the auditors will follow-up in the next audit.

The auditors indicated the City did not to include "Contributed Capital" and therefore did not depreciate it either. The City tracks

This led to a conversation about whether the auditors would or should provide a solution.

- b. Accounts Payable
 - i. Is the response adequate?

- c. Bank Reconciliations

The related section of the letter pertaining to the fiscal year ended 6/30/2018 excerpted below.

Auditors' Comment and Recommendation

Bank Reconciliations

"During our review of bank reconciliations, we noted that the bank reconciliations ending balances did not agree to the general ledger and required further investigation and audit adjustments to correct. We recommend the City develop policies and procedures to do the following: (1) record bank reconciliation journal entries in a timely manner and (2) develop a schedule that clearly shows how the total adjusted balances from all the bank reconciliations for all cash and investment accounts, including agency fund and recreation cash accounts, agree to the general ledger balance at month-end."

Management's Response

Bank Reconciliations

This comment was related to several checks voided in Fiscal Year 2018-19 that impacted cash in Fiscal Year 2017-18. However, the June 2018 bank reconciliation was not updated to include this reconciling item. The Finance staff has implemented a new procedure to perform a secondary review of all bank reconciliations. This new procedure is designed to reconfirm that the adjusted balance from all bank reconciliations matches the general ledger and capture any changes to the monthly cash balances that may have occurred after the first review of the bank reconciliations.

- i. Is the response adequate?

- ii. What's the order of magnitude?

that separately, which isn't necessarily bad practice – it just needs to be included.

The auditors' answer was that that would be outside the scope of the normal audit assignment and could result in complications if a solution suggested by the audit firm were adopted but the problem recurred. Therefore, the normal practice is for the audit firm to identify issues but generally not to suggest specific solutions.

Yes – though the auditors will follow up to see if it recurs in the next audit.

Regarding adequacy of the staff response; Yes, the staff response was adequate, but the auditors will follow up in the next audit to see what the City has done.

However, regarding Bank Reconciliations: The auditors stated that best practice is to reconcile within 30 days. The City did not reconcile within 30 days for the period ended June 30, 2018.

The auditors commented that most cities they audit (which are generally larger and tend to have larger finance staffs) do reconcile within 30 days.

Note: The numbers in the final audited financial statement reflect corrections to any of the numerical issues.

<p>Though there was a comment in last year's letter regarding Bank Reconciliations, and the description of the surface issue is the same: "the bank reconciliations ending balances did not agree to the general ledger" – underlying issues were different from the issue discussed this year.</p> <ul style="list-style-type: none"> i. Do the auditors confirm this issue has not recurred? ii. Do the auditors confirm these are different issues? iii. And do the auditors confirm that the response in last year's letter has been implemented to the satisfaction of the auditors? <p>Compliance and Other Matters The letter also stated that certain other matters were reported in a separate letter dated January 30, 2019 and described below.</p> <ul style="list-style-type: none"> iv. Please clarify which January 31 letter this refers to – Is the letter referred to the Management letter ("SAS 115 letter"?) <p>The "GAS" letter includes the statement in the second paragraph "In planning and performing an audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of the City's internal control, but not for the purpose of</p>	<p>However, prior to correction, the order of magnitude was: \$105,000 while the total cash position of the City was at that time \$105,000,000. So, the order of magnitude prior to correction was 1/10 of 1%.</p> <p>When asked in follow-up how common this is among municipalities that WDNE audits, the auditors replied: "Not common."</p> <p>When asked if staffing of the finance staff was adequate, the auditors felt that it would be adequate at full staffing levels, but that for this size staff, turnover and unfilled positions could have an impact.</p> <p>When asked if compensation being offered is adequate to help keep positions fully staffed, the auditors explained they were not qualified to answer, but felt it would be reasonable to have a firm with that specialty provide an opinion.</p> <p>The auditors stated this is correct.</p> <p>A different reconciliation issue occurred.</p> <p>Yes. As discussed in management's response, one contributing factor for the reconciliation issue for fye 6/30/2018 was that a number of checks written prior to the end of the 6/30/2018 fiscal year were voided and rewritten after the end of the fiscal year. Though there was no change in the actual cash position, the sequence created a timing issue resulting bank reconciliations ending balances not agreeing with the general ledger.</p> <p>The City is working on it, but it has not been completed.</p> <p>That is correct.</p>
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<p>expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control." There is a similar statement in the "...Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheet No. 6" stating "...we make no representation regarding the sufficiency of the procedures described below..." The "management letter" includes similar language – "... we do not express an opinion on the effectiveness of the City's control."</p> <p>i. Statements like these raise the question of whether the City should be doing more on control issues – relative to other cities our size.</p>	<p>The auditors answered by clarifying the difference, as explained in the GAS letter, of a "significant deficiency" versus a "material weakness." The essence of the difference is that a "material weakness" is of more concern. The issues identified in the audit for the fiscal year ended 6/30/2018 were not "material weaknesses."</p>
<p>7. SAS 114 Report</p> <p>A Memorandum from the City Manager to the City Council dated February 12, 2018, briefly describes each audit compliance letter. The description of the SAS 114 Report includes an explanation that the standard requires the auditors to communicate about eight different issues.</p> <p>i. Please identify the eight issues.</p> <p>While the previous statements recite what the audit does not include, the SAS114 letter includes a number of comforting statements like "All significant transactions have been recognized in the financial statements in the proper period;" "The financial statement disclosures are neutral, consistent, and clear;" and regarding disagreements with management "We are pleased to report that no such disagreements arose during the course of our audit."</p> <p>i. Considering what is not included in the report, but the assurances in the SAS 114 report, do the auditors believe the City should be doing something different with respect to these issues?</p> <p>ii. If that requires additional auditor involvement, how would that impact the cost of the audit to the City?</p> <p>iii. Are there any further audit steps that might be considered beyond those undertaken to date?</p> <p>iv. If so, what would those be?</p> <p>v. What additional insight might such activities provide?</p> <p>Regarding Debt Policy, The SAS 114 letter states that: "California state and local governments should review the amended provisions of Government Code Section 8855 either to ensure that</p>	<p>The auditors explained that SAS 114 establishes certain standards and provides guidance, but did not agree with the characterization in the memo that the standard requires addressing eight issues.</p> <p>No.</p> <p>Not Applicable</p> <p>Not beyond the items mentioned in the letter.</p> <p>Not applicable.</p> <p>Not applicable.</p>

<p>their existing debt management policy have been updated for the new requirements resulting from the adoption of SB 1029, or to develop and adopt the required debt management policy."</p> <p>The staff has provided the committee with a copy of the adopted debt policy.</p> <p>i. Does the adopted debt policy comply with Government Code Section 8855 as impacted by SB 1029?</p> <p>Note: The City adopted a debt policy on June 4, 2019, after the close of fiscal year 6/30/2018.</p>	<p>The auditors were not aware of a City debt policy.</p> <p>Further, the auditors commented that review of a debt policy for compliance with Government Code Section 8855 as impacted by SB 1029 would be beyond the scope of their engagement. Normally the City Attorney or another attorney would be involved in determining compliance of a debt policy with code sections.</p>
<p>8. Vavrinek, Trine, Day & Co. – Report on Applying Agreed Upon Procedures</p> <p>In addition to the audit performed by White Nelson Diehl Evans LLP, the City Treasurer has contracted for an Independent Accountants' Report on Applying Agreed-upon Procedures by Vavrinek, Trine, Day & Co.</p> <p>i. Did WNDE review that report?</p> <p>ii. If not, should the scope of the City audit include a review of that report?</p> <p>iii. If so, were the exceptions noted in paragraphs 5d and 5f of that letter of concern?</p> <p>iv. Is it better to have such a report performed by the firm doing the City audit? Or is it better to have the report done by a different firm?</p>	<p>Yes. The auditors did look at the prior year's VTD letter.</p> <p>Not applicable.</p> <p>Yes – the issue pertained to reconciliation which was a concern expressed in the GAS letter discussed above.</p> <p>Normally, the same firm would do both which may be a more cost-efficient approach. Also, the firm conducting the overall audit may be more familiar with the City than a firm brought in for the one purpose, though in this case VTD had been a prior City auditor and should also be familiar with the City's finances.</p>
<p>Financial Statements</p>	
<p>9. Is the January 31, 2019, (page "i" through "v") letter to the members of the City Council & Citizens of the City of Laguna Beach from the City Manager and Director of Administrative Services considered a part of the audit?</p> <p>a. Do the auditors review that section?</p> <p>b. Does the auditor's opinion encompass this letter?</p>	<p>No. It is not considered a part of the audit. However, the auditors do review the section.</p>

<p>Page ii of the Management Discussion 10 states: "The City's financial statements present the financial activity of the City of Laguna Beach (the primary government) and the Laguna Beach County Water District (a component unit of the City). The Water District is discretely presented in the City's financial statements because the City Council also serves as board members of the Water District." b. Does the audit cover the water district?</p>	<p>No – the opinion does not encompass that letter, however if the auditors noticed something substantially amiss in the letter the auditors would comment.</p> <p>Yes – the CAFR does cover both though the water District has a separate audit done. The same firm currently audits both the City and water district, though the water district audit is done by different people in the firm.</p>
<p>In the Introductory Section</p>	
<p>10. Is the "Management's Discussion and Analysis" section of the Comprehensive Annual Financial Report (pages 5 through 14) considered a part of the audit? a. Do the auditors review that section?</p> <p>Page 13 of the Comprehensive Annual Financial Report – titled General Budget Fund – references differences between the original budget and final budget and addresses significant items.</p> <p>a. Is this section to be interpreted to mean that revenue and expenditures identified in the Comprehensive Annual Financial Report have been reviewed and found to be consistent with properly authorized budgets and appropriations?</p> <p>b. Page 6 – Table A-1 – why is the accounting basis and measurement focus different for Government Funds versus Government-wide Statements, Proprietary Funds, and Agency Funds?</p>	<p>The auditors do review this section and if the section is inconsistent with other reviewed information, the auditors would comment but the auditors' opinion does not encompass that section.</p> <p>The auditors do review the budget, and the auditors look at budget transfers, but a thorough review of the budget for consistency with spending is beyond the scope of the audit.</p> <p>To reflect the different character of the different statements, the accounting basis for Government-wide Statements and Proprietary Funds - which focus on all assets and liabilities - is accrual while the accounting basis for Governmental Funds – which focuses on assets expected to be used up and liabilities coming due during the fiscal year or shortly thereafter – is modified accrual and has elements of cash basis accounting.</p>
<p>Statements</p>	
<p>11. Page 30 Why does the City do cash flows for the proprietary funds and not for other funds?</p>	<p>Under GAAP, statements of cash flow are required only for Proprietary Funds. This is normal for accrual accounting.</p>

Notes to Financial Statements	
<p>12. Note 1T - New GASB Pronouncements as reflected in Note 1T – page 43 –and Note 19 – page 79 – Prior Period Adjustments resulting from implementation of GASB 75: Also as referenced in the “Emphasis of the Matter” section of the opinion letter. There has been a change in Net Position resulting from implementation of GASB 75: The net position has been restated downward by \$1,728,860 There is also reference to this change in the SAS-114 report. a. Please comment on what might be an appropriate comment for the committee to make in its report regarding this restatement.</p>	<p>This is the implementation of a significant accounting standard pronouncement that should be brought to the attention of readers.</p>
<p>13. Note 1 - Page 43 – How will the following pending changes to accounting standards impact Laguna? i. GASB 83, ii. GASB 84, iii. GASB 87 iv. GASB 88 v. GASB 89 vi. GASB 90</p>	<p>Of the six pending GASB changes, GASB 84 and 87 are expected to have some impact on the City, while the others are expected to have minimal impact.</p> <p>GASB 84, which is essentially a change in the format of presentation regarding fiduciary activities could impact manner of reporting of items such as certain deposits.</p> <p>GASB 87 pertains to reporting format regarding leases where the City receives rental income.</p>
<p>14. Note 11 – Other Post Employment Benefit Plan – page 62 The discount rate used for actuarial assumptions is 3.62% i. Can the auditors explain why this rate is appropriate?</p>	<p>This choice of discount rate is consistent with GASB 75.</p>
<p>15. Note 14 - Page 71 – CHANGE IN FOOTNOTE compared to June 30, 2017, CAFR:</p> <p>The current CAFR 6/30/2018: Changes of Assumptions: In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.</p> <p>The Prior CAFR for FYE 6/30/2017: Page 73: Subsequent Events: In December 2016, CalPERS’ Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers’ normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports and will result in an increase to employer’s total pension liabilities.</p>	

<p>Please clarify:</p> <ul style="list-style-type: none"> a. Was the calculation for based on 6/30/2018 based on 7.15%? b. Was the calculation for based on 6/30/2018 based on 7.65%? c. What will the calculation for fye 6/30/19 be based on? d. If 7% is the discount rate required by GASB Statement 68 for accounting valuations, why was 7.15% used? e. And, is the City in compliance using 7.15%? 	<p>Yes – 7.15% was used for the fiscal year ended 6/30/2018</p> <p>Yes – 7.65% was used for the fiscal year ended 6/30/2017</p> <p>7.15%</p> <p>7.15% includes a .15% administration fee</p> <p>Yes</p>
<p>16. Note 14 - Page 72: Bottom:</p> <ul style="list-style-type: none"> a. Does this work out to 7.15%? b. Why not show it? 	<p>Good question, but the City is required to use the discount rate specified by the actuaries.</p>
<p>17. Note 14 - Page 73: Table re Miscellaneous Plan:</p> <ul style="list-style-type: none"> a. Does this mean going forward liabilities will be \$111,892,532? b. And the value of contributions and earnings to date against that are? 	<p>Total Pension Liability for the Miscellaneous Plan is estimated to be \$111,892,532 as of 6/30/2018.</p> <p>The value of contributions and earnings to date for the Miscellaneous Plan is \$83,276,767. Therefore, the resulting Net Pension Liability (Unfunded Net Pension Liability for the Laguna Beach Miscellaneous Plan is \$28,615,765 as of 6/30/2108.</p>
<p>18. Note 14 – page 76 – Sensitivity</p> <p>According to the “Sensitivity of the Net Pension Liability to Changes in the Discount Rate” section of CAFR Note 14, the present value of the City’s unfunded pension obligation is currently estimated at approximately \$66 million. That number assumes the CalPERS portfolio earns at least 7.15%, last FY’s “target” rate, during the next decade or more. CalPERS has since lowered that “target” rate of expected return to 7.0% for the FYE June 30, 2019, during which the fund earned only 6.7%.</p> <p>Per the sensitivity analysis in Note 14, if CALPERS actually earn 6.15%, the City’s unfunded pension liability will grow to \$101 million.</p> <p>A CalPERS' consultant, Wilshire Associates, lowered its forecast for the 10-year expected return on the system’s \$379 billion portfolio from 6.2% to 5.9%, according to a recent published report available via link below: https://calpensions.com/2019/08/26/CalPERS-gets-candid-about-critical-decade-ahead/</p> <p>If Wilshire’s 5.9% projected rate of return proves accurate, the City's unfunded pension liability would be somewhat greater than the \$101 million “worst case” projected in the CAFR.</p>	

<p>a. Should the range of the sensitivity analysis be expanded to project outcomes of plus or minus two percentage points versus CalPERS' "target" returns in order to encompass a broader dispersion of possible outcomes given the lack of predictability of CalPERS' investment returns over time?</p>	<p>A sensitivity analysis of plus or minus 1% complies with the standard of GASB 68. The City is not prohibited from also calculating and reporting a sensitivity analysis in addition to the plus or minus 1% calculation or other scenarios. This would not create a compliance issue for the City's audited financial statements, though the calculation would likely require assistance of CalPERS actuaries. The auditors did not estimate the cost of having other sensitivity analysis calculations performed.</p>
<p>Prior Year Audit</p>	
<p>19. Prior Year Audit – Have recommendation from the prior year audit been adequately implemented?</p>	<p>Depreciation and reconciliation issues were discussed earlier.</p>
<p>General Questions</p>	
<p>20. Are you aware of anything in the City's financial records, statements or management procedures that might make you in any way uncomfortable or where further inquiry might be useful?</p>	<p>Nothing beyond what has been discussed in the Audit Compliance letters.</p>
<p>21. Treasurer function: Since over \$100 million of liquid assets are under the sole control of the City Treasurer, please explain audit procedures, internal controls, and compliance issues regarding the City portfolio.</p>	<p>As a matter of routine, the audit includes a check of compliance with policies, confirms balances, compares balances on general ledger and financial statement, and confirms investments and bank reconciliations. That is a big portion of the audit function.</p>
<p>22. Question regarding suggestions regarding best practices for the Citizens Audit Review and Measure LL Oversight Committee:</p> <ul style="list-style-type: none"> a. Please provide any appropriate input regarding the functions, roles, and relationship to outside auditors of Audit Committees with which the auditor is familiar. b. Also, in a quest to understand and establish "best practices" for this Audit Committee, please reference guidelines as set forth by major public accounting firms. Such input shall include, as appropriate, written copies of best practices of the organizations cited 	<p>The auditors commended the City of Laguna Beach for setting up a Citizens Audit Review and Measure LL Oversight Committee saying few cities do that, and it is good practice to do so. The auditors also commented that the committee has been very detailed in its work. They stated that the best practice guidelines of the Government Finance Officers Association are as good a set of guidelines as they are aware of for that function.</p>
<p>23. Hotline: With last year's review, the committee recommended the City establish a "hotline" for public input with procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government and by the public of concerns regarding questionable accounting or auditing matters. Though the recommendation was accepted by the City Council, a system has not yet been implemented.</p> <p>a. Can the auditors make suggestions about how best to implement such a program?</p>	<p>The auditors suggested that the City might contact the cities of Covina, Riverside,</p>

	and/or Fountain Valley for insight into how those cities have established hotlines and how they are operated.
24. Total Debt – can the auditors provide a comparison to other cities?	The auditors suggested the City might contact the office of State Senator John Moorlach's office to see if it can provide that data.
25. Total Unfunded Pension obligations – can the auditors provide a comparison to other cities?	The auditors suggested the City might contact the office of State Senator John Moorlach's office to see if it can provide that data.
26. Please comment on Heidenreich & Heidenreich Peer Review of White Nelson Diehl & Evans LLP	White Nelson Diehl Evans LLP is a member of AICPA and is required every three years to be peer reviewed. The opinion issued in the August 15, 2018 Report on the Firm's System of Quality Control by Heidenreich & Heidenreich states that, in their opinion, the system of quality control for accounting and auditing practices of White Nelson Diehl Evans LLP in effect for the year ended March 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
27. Please comment on use and relevance of the General-Purpose Checklist pertaining to the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.	The General-Purpose Checklist pertaining to the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting is used in conjunction with the award of the Certificate of Achievement for Excellence in Financial Reporting and is a thorough 79-page reference tool related to preparation of a CAFR.
28. Please comment on the relevance of the award of the Certificate of Achievement for Excellence in Financial Reporting.	The City has received this award for the fiscal year ended June 30, 2018, and for a number of earlier years. The certificate recognizes the achievement of a high standard in financial reporting.
29. Checklist If an audit exception is deemed serious, please suggest reasonable timelines for correction.	As discussed earlier, the auditors felt that a serious exception should be corrected within 30 days, while less serious exceptions would be reviewed at the next audit.

SECTION FIVE: Conclusion – Auditors Unmodified Opinion

Conclusion – Auditors Unmodified Opinion: The auditors have expressed an "unmodified" opinion of the financial statements for the City's fiscal year ended June 30, 2018.

"In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America."

City Finance staff award

- **Award of the Certificate of Achievement for Excellence in Financial Reporting.**

The City has been awarded the Certificate of Achievement for Excellence in Financial Reporting award for the fiscal year ended June 30, 2018, and for a number of earlier years. The certificate recognizes the achievement of a high standard in financial reporting.

SECTION SIX - Recommendations

Status of prior year accepted recommendations:

1. Hotline – The City Council agreed with the recommendation in the report on the CAFR for the fiscal year ended June 30, 2017, to implement formal procedures for public input regarding accounting or audit matters, such as a City Hotline. The Committee commends Council and Staff for moving to create a telephone "hotline" to enable City employees, vendors, residents and other interested parties to easily and anonymously report financial irregularities within City government. It remains somewhat unclear, however, who is responsible for evaluating this confidential public input or how any such allegations would be assessed. Accordingly, the Committee recommends that the City establish a set of protocols and procedures to ensure that information received via this hotline is promptly and properly reviewed on a consistent basis. Any accusations deemed credible and material should be investigated in a manner that is thorough, independent and transparent, while respecting the rights of all parties.
2. Treasurer's Committee -- The City Council agreed with the recommendations in the report on the CAFR for the fiscal year ended June 30, 2017:
 - a. To have the Treasury function's outside Review of Agreed Upon Procedures done annually rather than bi-annually.
 - a. That an entity outside of the Treasury function itself select the firm that will conduct the review and monitor the results of the review.
 - b. And the City Treasurer stated that she would be recommending that the Ad Hoc Investment Committee with a formal Investment Committee and Councilmember Bob Whalen discussed a proposed permanent Investment Oversight Committee as had been mentioned in the committee's conveyance letter accompanying the report.

Recommendations: Based on its review of Comprehensive Annual Financial Report (CAFR), the Committee recommends the following:

1. Implement the City staff responses to audit letter comments, including those pertaining to Capital Assets and Reconciliations. Further, the committee's position is that the City endeavor not only to establish the aforementioned policies/procedures, but to ensure adherence thereto. Note that the audit compliance letter comments fall into two categories: "significant deficiencies" and "material weaknesses" with the difference being that a "material weakness" is of more concern. The issues identified in the audit for the fiscal year ended 6/30/2018 were not "material weaknesses." However, the issues include:
 - a. Capital Assets --WNDE recommended the City develop policies and procedures related to capital assets to ensure the detail schedules agree with the general ledger, and that all asset classes include and reflect depreciation expense.
 - b. Accounts Payable -- WNDE recommended the City develop policies and procedures to review all invoices paid after year-end to ensure they are reported in appropriate accounting period.
 - c. Bank Reconciliation -- WNDE recommended the City develop policies and procedures to accomplish the following:
 - i. Record bank reconciliation journal entries in a more timely manner; and

- ii. Create a schedule to clearly show that total adjusted balances from all reconciliations for all cash and investment accounts, including agency funds and recreation cash accounts agree to the general ledger at month-end.
2. To ensure valuable staff time is committed appropriately, the city should evaluate and assess the efficacy of the current thresholds for purchasing and asset tracking (\$1,000 and \$5,000 respectively). This evaluation should include a review of similar thresholds across other local and regional municipalities.
3. The following prior year Audit Committee recommendations have not been implemented:
 - a. To date, the hotline has been established but procedures to follow up on calls have not been put in place, therefore, City staff should continue working to develop hotline protocols and procedures.
 - b. To date, the City has not brought forward a proposal to appoint an independent Investment Committee. The Audit Committee continues to recommend taking the necessary steps to replace the City Treasurer's Ad Hoc Investment Committee with a formal Investment Committee appointed by the City Council similar to other committees, commission and boards.
 - c. To date, the City Treasurer continues to select the auditors to review the Treasury investment policy and investments. The Committee continues to recommend having an entity outside of the Treasury function select the firm that will conduct the review of the agreed-upon procedures of investments and monitor the results of that review.

The members of The Citizens' Audit Review and Measure LL Oversight Committee thank the City for its efforts in keeping the citizens of Laguna Beach informed of the financial condition of the City and we hope the City Council and the residents of Laguna Beach will benefit from the work of this committee. We also thank the City Council liaisons Mayor Bob Whalen and Councilmember Sue Kempf, the City Treasurer, auditors from White Nelson Diehl Evans LLP and especially City finance staff for their assistance in the production of this report. The committee members look forward to continuing to serve the interests of the community of Laguna Beach in the coming year.

Attachments:

- Agenda Bill
- Minutes
- Resolution
- Compliance Letter Memo
- Audit Compliance Letters
- Government Finance Officers Association Best Practices

AGENDA BILL

12

No.

Meeting Date: 01/23/2018

SUBJECT: AUDIT REVIEW COMMITTEE

SUMMARY OF THE MATTER:

BACKGROUND:

On July 27, 2017, the City Council directed the City Manager to return with options to create an audit review committee whose primary responsibilities would be to participate in the periodic selection of the City's external financial auditors and to review the results of the annual financial report. On October 24, 2017, the City Council directed staff to check with the seven members of the Measure LL Audit Oversight Committee to ascertain whether they would be willing to add the responsibilities of an audit review committee to their responsibilities. At the same meeting, the City Council requested staff to develop a list of duties for an audit review committee.

DISCUSSION:

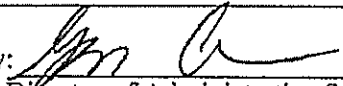
On December 11, 2017, staff met with the Citizens' Measure LL Audit Oversight Committee and confirmed that all seven members are willing to assume the additional responsibilities of an audit review committee. Staff believes this would be best and most efficiently accomplished by the creation of a Citizens' Audit Review and Measure LL Oversight Committee.

To develop the list of additional duties for a Citizens' Audit Review and Measure LL Oversight Committee, staff surveyed twenty-three Orange County cities regarding their respective audit committees and those committee's functions, membership, roles, meeting frequency, and relationship to external auditors. Staff also researched best practices as articulated by the U.S. Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors IIA, the Government Finance Officers Association (GFOA), and the Association of Local Government Auditors (ALGA), as well as guidelines set forth by major public accounting firms.

RECOMMENDATION: It is recommended that the City Council:

- 1) Add the responsibilities of an audit review committee to the duties of Citizens' Measure LL Oversight Committee; and
- 2) Adopt the attached resolution establishing the Citizens' Audit Review and Measure LL Oversight Committee.

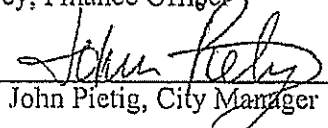
Appropriations Requested: \$None

Submitted By: 
Gavin Curran, Director of Administrative Services

Fund: _____

Coordinated with: 
Nancy Pauley, Finance Officer

Attachments: Resolution;
Application of Measure LL Committee Member

Approved: 
John Pietig, City Manager

Based on the results of the survey and research that was conducted, staff recommends establishing the following structure and duties for a Citizens' Audit Review and Measure LL Oversight Committee:

- Structure and Meetings: A seven-member committee, with two required meetings per year. Additional meetings will be scheduled as necessary.
- Membership, Terms, and Staff Support: The committee would be comprised of the residents who have already been appointed to serve on the Citizens' Measure LL Audit Oversight Committee, who will continue to serve for the remainder of their current terms. Thereafter, members will be appointed for five-year terms. The Finance Officer would serve as Staff Liaison to the committee, and the committee would have technical expertise as needed from the City's external auditors and relevant City staff.
- Role/Responsibilities:
 - Perform the duties assigned to the Citizens' Measure LL Audit Oversight Committee.
 - Participate in the selection of the City's external financial auditors.
 - Review any internal control weaknesses and legal compliance issues identified in the course of the annual financial audit and provide any necessary recommendations to the City Council.
 - Review the results of the annual financial audit and prepare a report for distribution to the City Council

For information only, the completed application for each member of the Measure LL Audit Oversight Committee is attached to this agenda bill.

FISCAL IMPACT:

There is no immediate financial impact associated with the recommended action. Staff will monitor needs on an ongoing basis and return to the City Council with a request if additional funds are needed.

MINUTES
LAGUNA BEACH CITY COUNCIL
ADJOURNED AND REGULAR MEETING
January 23, 2018

An Adjourned and Regular Meeting of the City Council of the City of Laguna Beach was called to order on Tuesday January 23, 2018 in the City Hall, 505 Forest Avenue, Laguna Beach, California, Mayor Boyd presiding.

ROLL CALL

PRESENT: COUNCILMEMBERS: Dicterow, Iseman, Whalen, Zur Schmiede, Boyd
ABSENT: COUNCILMEMBERS:

Mayor Pro Tem Zur Schmiede led the Pledge of Allegiance.

In accordance with Government Code section 54952.2(b), the City Council voted unanimously to add an item to its closed session agenda, finding there is a need to take action that arose since the posting of the agenda for the meeting. Pursuant to Government Code section 54956.9(d)(2), the City Council will be conferring with its legal counsel concerning one item for which there is a significant exposure to litigation against the City.

CLOSED SESSION

Conference with Legal Counsel Regarding Anticipated Litigation (pursuant to Government Code section 54956.9(d)(4)): consideration of whether to initiate litigation – two items.

Conference Regarding Real Property Negotiations (pursuant to Government Code section 54956.8): one item – price and terms of payment for possible acquisition of Driftwood parcels (APN 656-191-40, 056-240-65, and 056-240-57) at County tax sale; property representative is County of Orange; City representative is John Pietig, City Manager.

Conference with Legal Counsel Regarding Existing Litigation (pursuant to Government Code section 54956.9(d)(1): two items – (1) South Orange County Wastewater Authority v. Moulton Niguel Water District (Riverside County Superior Court Case No. RIC1721240); (2) Glover v. City of Laguna Beach (U.S. District Court Case No. 8:15-cv-01332).

9. COMMERCIAL PROPERTY MAINTENANCE

Direct staff to evaluate amending the Municipal Code to develop new standards and processes for commercial property maintenance and the feasibility of a commercial façade improvement program.

10. CITY TREASURER'S MONTHLY REPORT FOR DECEMBER 2017

Received and filed the City Treasurer's monthly report for December 2017.

11. REVIEW OF 9/80 CITY HALL SCHEDULE Review of the 9/80 work schedule.

This item was pulled by a member of the public after the consent calendar was approved.

Jennifer Zeiter pulled this item because she was concerned that City Hall was not open five days every week. She said there had been complaints from the public regarding the newly introduced 9/80 schedule.

City Manager John Pietig explained the 9/80 schedule.

Public Comments: Justin Carvin representing the Laguna Beach Municipal Employees Association said the City employees were in favor of continuing the 9/80 schedule.

Michael Morris, Laguna Beach resident, said he had conducted an unofficial online poll from residents and the new schedule did not appear to be "overly burdensome to the community."

Councilmember Comments: Councilmember Bob Whalen said that he supported the new schedule based on data and personal experience. He said the new schedule was important to retain and recruit qualified City staff.

Moved by Councilmember Whalen seconded by Mayor Pro Tem Zur Schmiede and carried unanimously 5/0 to receive and file the status report on the 9/80 work schedule for City Hall employees.

12. AUDIT REVIEW COMMITTEE Proposed options to create an Audit Review Committee.

City Manager John Pietig pulled this item in order to clarify that this was an ad hoc committee, and would not preclude the members from sitting on another committee

Public Comments: Michael Morris said he was concerned about how the committee was being formed. He discussed best practices for audit and oversight committees.

Councilmember Comments: Councilmember Bob Whalen said he would like to stagger the committee members' terms.

Councilmember Steve Dictorow said he had envisioned this to be a full-audit review committee.

Councilmember Toni Iseman said she believed the audit committee should be separate from the Measure LL committee.

Moved by Councilmember Whalen seconded by Mayor Pro Tem Zur Schmiede and carried unanimously 5/0 to add the responsibilities of an audit review committee to the duties of Citizens' Measure LL Oversight Committee; and adopt **Resolution No. 18.006** entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAGUNA BEACH, CALIFORNIA, ADDING THE RESPONSIBILITIES OF AN AUDIT REVIEW COMMITTEE TO THE DUTIES OF THE CITIZENS MEASURE LL AUDIT OVERSIGHT COMMITTEE AND ESTABLISHING A CITIZENS' AUDIT REVIEW AND MEASURE LL OVERSIGHT COMMITTEE" with the following amendment:

Section 6 of the Resolution shall read: Each member of the Citizens' Audit Review and Measure LL Oversight Committee shall be appointed for the remainder of the current Citizens' Measure LL Oversight Committee terms and thereafter; a two-year term for three members; and a three-year term for four members; and the City Council will review the Committee in one year.

REGULAR ORDER

13. PROPOSED REMOVAL OF THE RED IRONBARK TREE AT 485 HIGH DRIVE Proposal to remove decayed tree for public safety and plant a replacement tree.

Staff Report: Director of Public Works/Assistant City Manager Shohreh Dupuis gave a PowerPoint presentation. She said staff were recommending to remove the red ironbark tree and to plant a replacement tree.

Councilmember Toni Iseman asked about the prior condition of the tree and why it had deteriorated.

Director of Public Works/Assistant City Manager Shohreh Dupuis said there had been significant cutting of the roots when the property had been remodeled.

Public Testimony: Rubin Flores said he was concerned that the property owners had diminished the "garden" look of the neighborhood. He said he believed the tree was strong and should remain.

Ken Boden, property owner at 485 High Drive, said the tree was unhealthy and had a fungus, and he was concerned the tree could cause future damage to property or people.

1 RESOLUTION NO. 18.009

2 A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
3 LAGUNA BEACH, CALIFORNIA ADDING THE
4 RESPONSIBILITIES OF AN AUDIT REVIEW COMMITTEE TO
5 THE DUTIES OF THE CITIZENS MEASURE LL AUDIT
6 OVERSIGHT COMMITTEE AND ESTABLISHING A CITIZENS'
7 AUDIT REVIEW AND MEASURE LL OVERSIGHT
8 COMMITTEE

9 WHEREAS, the City Council of the City of Laguna Beach recognizes the importance
10 of transparency and accountability in the administration of public resources, and the City
11 Council is ultimately responsible for ensuring that the City of Laguna Beach is meeting its
12 internal control and financial reporting responsibilities; and

13 WHEREAS, the City Council recognizes the importance of an Audit Review
14 Committee as it is considered a financial management best practice and will further the City's
15 goals of transparency and accountability in the administration of public resources; and

16 WHEREAS, the City Council recognizes that the Citizens' Measure LL Audit
17 Oversight Committee serves a similar purpose; and

18 WHEREAS, the City Council now desires to establish a Citizens' Audit Review and
19 Measure LL Oversight Committee;

20 NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LAGUNA BEACH
21 HEREBY RESOLVES AS FOLLOW:

22 1. ESTABLISHMENT OF THE AUDIT REVIEW AND MEASURE LL OVERSIGHT
23 COMMITTEE

24 The City Council of the City of Laguna Beach hereby establishes the City of Laguna
25 Beach Citizens' Audit Review and Measure LL Oversight Committee.

26 2. PURPOSE

27 The Citizens' Audit Review and Measure LL Oversight Committee's primary
28

responsibilities will include:

- a) Participating in the selection of the City's external financial auditors; reviewing the results of the annual financial audit; reviewing any internal control weaknesses and legal compliance issues identified in the course of the annual financial audit and provide any necessary recommendations to the City Council.
- b) Reviewing annually the expenditures of the Measure LL Fund and providing a subsequent public report for distribution to the City Council

3. MEMBERSHIP AND APPOINTMENT

The Citizens' Audit Review and Measure LL Oversight Committee shall consist of up to seven members, initially to be composed of the current seven members of the Citizens' Measure LL Oversight Committee. The City Council will appoint members in the same manner provided for all other City commissions, boards, and committees.

4. QUALIFICATIONS OF APPOINTED PUBLIC MEMBER

Must be a resident of the City of Laguna Beach.

5. COMPENSATION

Members of the Citizens' Audit Review and Measure LL Oversight Committee shall serve without compensation.

6. TERM OF MEMBERSHIP

Each member of the Citizens' Audit Review and Measure LL Oversight Committee shall be appointed for the remainder of the current Citizens' Measure LL Oversight Committee terms. Thereafter, three positions will be appointed for two-year terms, and four positions will be appointed for three-year terms.

7. TIME AND PLACE OF MEETINGS

The Citizens' Audit Review and Measure LL Oversight Committee will meet at least

1 twice annually and shall hold other meetings on an as-needed basis. Meetings of the
2 Citizens' Audit Review and Measure LL Oversight Committee shall comply with
3 applicable requirements of the Brown Act.

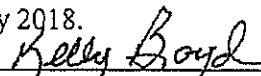
4 8. CONFLICT OF INTEREST

5 Current members of Citizens' Audit Review and Measure LL Oversight Committee
6 terms, are not designated filers for the Statement of Economic Interests form (Form
7 700) for the remainder of their current terms. Thereafter, all new and existing members
8 of the Citizens' Audit Review and Measure LL Oversight Committee are subject to the
9 requirements of the Conflict of Interest provisions of the Laguna Beach Municipal
10 Code and the conflict of interest laws of the State of California. All members shall be
11 designated filers for the Statement of Economic Interests form (Form 700) required by
12 the California Fair Political Practices Commission.

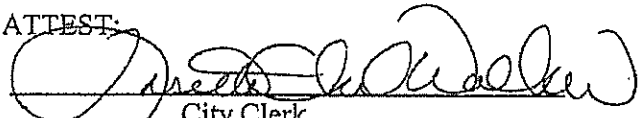
14 9. SUPERSEDE AND REPLACE RESOLUTION 18.006

15 This resolution is intended to supersede and replace Resolution 18.006 adopted by the
16 City Council on January 23, 2018.

18 ADOPTED this 27th day of February 2018.

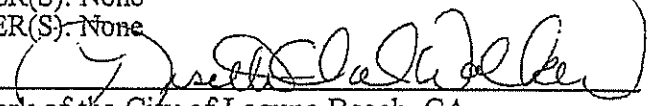
19 
Kelly Boyd, Mayor

20 ATTEST:

21 
22 City Clerk


23 I, LISETTE CHEL, City Clerk of the City of Laguna Beach, California, do hereby
24 certify that the foregoing Resolution No. 18.009 was duly adopted at a Regular Meeting of the
City Council of said City held on February 27, 2018, by the following vote:

25 AYES: COUNCILMEMBER(S): Dicterow, Iseman, Whalen, Zur Schmiede, Boyd
26 NOES: COUNCILMEMBER(S): None
27 ABSENT: COUNCILMEMBER(S): None

27 
City Clerk of the City of Laguna Beach, CA



City of Laguna Beach
MEMORANDUM

Date: February 12, 2019
To: City Council
From: John Pietig, City Manager 
Subject: Audit Compliance Letters

Attached is the Comprehensive Annual Financial Report for the Year Ended June 30, 2018 (CAFR), along with each of the four required audit compliance letters. The City's financial statements have been audited by White Nelson Diehl Evans LLP and comply with Generally Accepted Accounting Principles (GAAP) and received an unqualified opinion.

Below is a brief description of each letter and any findings. Also, this information will be provided to the Citizens' Audit Review and Measure LL Oversight Committee.

Agreed-Upon Procedures Applied to Appropriations Limit Worksheets

This report outlines specific procedures the auditors are required to do concerning the City's Appropriations Limit Calculation each year. The auditors reviewed and compared the 2017-18 limit and annual adjustment factors that were adopted by resolution by the City Council. This report is necessary to meet Section 1.5 of Article XIII B, which requires that the annual appropriations limit calculation be reviewed as part of the local government's annual financial audit. No findings were noted.

Management Letter

Statement on Auditing Standards No. 115 requires the auditors to communicate in writing material weaknesses and significant deficiencies in internal control that are identified during the audit process. The auditors are given the option to report other matters of internal control (i.e., "control deficiencies" or "best practices") either verbally or in writing. White Nelson Diehl Evans LLP decided to issue their recommendation(s) in writing in the City's management letter.

This year's Management Letter included two procedures the auditors recommended changing. Those changes included: 1) adopt a written capitalization policy, and 2) regularly analyzing community development deposits to determine the status of old deposits. In response to the findings, the Finance staff has already prepared a written capitalization policy that is currently being review by City departments before formally incorporating into the City's administrative policies. Also, the Finance staff is working with the Community Development Department to implement a program to perform a comprehensive

Audit Compliance Letter
February 12, 2019
Page 2

analysis of developer deposits every five years to determine if the deposit should be refunded, remain, or be recognized as revenue.

Report on Compliance and Other Matters and Internal Controls

This report is required to be issued for all audits performed in accordance with *Government Auditing Standards* (GAS). The standards require that the auditors disclose material issues of noncompliance as well as material weaknesses and significant deficiencies in internal control over financial reporting that might have come to the auditors attention during the audit process.

This year's GAS letter included three significant deficiencies internal controls. Those deficiencies included 1) capital asset schedules not agreeing to general ledger, 2) an accounts payable check incorrectly accrued back to the prior year, and 3) the bank reconciliation not agreeing to the general ledger. The Finance staff has implemented several changes to correct the deficiencies, including the development of a written capitalization policy, and a secondary review of the bank reconciliation after all year-end closing entries are posted. No changes are recommended regarding accounts payable. This appears to be an isolated incident that current internal controls should prevent in the future.

SAS-114 Report

Statement on Auditing Standards No. 114 was issued a few years ago to provide those charged with governance a direct communication link with the external auditors at the planning phase of the audit and the conclusion of the audit. The standard requires the auditors to communicate about eight different issues with those charged with governance. The standard does not require how this communication is provided so it is up to the auditors to choose how to comply. The letter meets this requirement.

White Nelson Diehl Evans LLP practice has been to comply with the standard by making these communications in writing. For fiscal year 2018, the auditors sent the Council a letter during the planning phase of the audit and have complied with the remainder of the reporting requirements with this letter issued with the Comprehensive Annual Finance Report.

Please contact Gavin Curran or me if you have any questions.

CC: Gavin Curran, Director of Administrative Services
Citizens' Audit Review and Measure LL Oversight Committee

CITY OF LAGUNA BEACH, CALIFORNIA
APPROPRIATIONS LIMIT WORKSHEET NO. 6
WITH INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES
APPLIED TO APPROPRIATIONS
LIMIT WORKSHEET NO. 6
FOR THE YEAR ENDED JUNE 30, 2018



INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES APPLIED
TO APPROPRIATIONS LIMIT WORKSHEET NO. 6

To the Honorable Mayor and
Members of the City Council
of the City of Laguna Beach
Laguna Beach, California

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet No. 6 of the City of Laguna Beach, California for the year ended June 30, 2018. These procedures, which were agreed to by the City of Laguna Beach, California and the League of California Cities (as presented in the League publication entitled "Article XIII-B Appropriations Limit Uniform Guidelines") were performed solely to assist the City of Laguna Beach, California in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City of Laguna Beach's management is responsible for the Appropriations Limit Worksheet No. 6.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed Worksheet No. 6 for the year ended June 30, 2018, and compared the limit and annual adjustment factors included in that worksheet to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheet to those that were selected by a recorded vote of the City Council.

No exceptions were noted as a result of our performing this procedure.

2. For the accompanying Appropriations Limit Worksheet No. 6, we added last year's limit to the total adjustments, and compared the resulting amount to this year's limit. We also recalculated the adjustment factor and the adjustment for inflation and population, and compared the results to the amounts on Worksheet No. 6.

No exceptions were noted as a result of our performing this procedure.

3. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Worksheet No. 6 to the prior year appropriations limit adopted by the City Council for the prior year.

No exceptions were noted as a result of our performing this procedure.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet No. 6. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled "Article XIII-B Appropriations Limit Uniform Guidelines".

This report is intended solely for the information and use of the City Council and management of the City of Laguna Beach, California and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
January 30, 2019

CITY OF LAGUNA BEACH
 APPROPRIATIONS LIMIT WORKSHEET NO. 6
 FOR THE YEAR ENDED JUNE 30, 2018

Appropriations limit for fiscal year ended June 30, 2017 (Note 2) \$ 55,558,012

Adjustment factors for the fiscal year ended June 30, 2018 (Note 2):

Inflation Factor (Note 3)	Population Factor (Note 4)	Combined Factor	
1.0369	1.0069	1.0441	x <u>0.0441</u>
Adjustment for inflation and population			2,450,108
Other adjustments (Note 5)			<u>-</u>
Total adjustments			<u>2,450,108</u>
Appropriations limit for fiscal year ended June 30, 2018			<u><u>\$ 58,008,120</u></u>

See accompanying Notes to Appropriations Limit Worksheet No. 6

CITY OF LAGUNA BEACH

NOTES TO APPROPRIATIONS LIMIT WORKSHEET NO. 6

FOR THE YEAR ENDED JUNE 30, 2018

1. PURPOSE OF LIMITED PROCEDURES REVIEW:

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), California governmental agencies are restricted as to the amount of annual appropriations from proceeds of taxes. Effective for years beginning on or after July 1, 1990, under Section 1.5 of Article XIII B, the annual calculation of the appropriations limit is subject to a limited procedures review in connection with the annual audit.

2. METHOD OF CALCULATION:

Under Section 10.5 of Article XIII B, for fiscal years beginning on or after July 1, 1990, the appropriations limit is required to be calculated based on the limit for the fiscal year 1986-87, adjusted for the inflation and population factors discussed at Notes 3 and 4 below.

3. INFLATION FACTORS:

A California governmental agency may adjust its appropriations limit by either the annual percentage change in the 4th quarter per capita personal income (which percentages are supplied by the State Department of Finance), or the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction. The factor adopted by the City of Laguna Beach (the City) for fiscal year 2017-2018 represents the annual percentage change for per capita personal income.

4. POPULATION FACTORS:

A California governmental agency may adjust its appropriations limit by either the annual percentage change of the jurisdiction's own population, or the annual percentage change in population in the County where the jurisdiction is located. The factor adopted by the City for fiscal year 2017-2018 represents the annual percentage change in population for the County in which City is located.

5. OTHER ADJUSTMENTS:

A California governmental agency may be required to adjust its appropriations limit when certain events occur, such as the transfer of responsibility for municipal services to, or from, another governmental agency or private entity. The City had no such adjustments for the year ended June 30, 2018.



The Honorable City Council
of the City of Laguna Beach
Laguna Beach, California

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Laguna Beach, California (the City) as of and for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 15, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As discussed in Notes 1T and 19 to the financial statements, in fiscal year 2017-2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of this standard required retrospective application resulting in a reduction of previously reported net position. No other accounting policies were adopted and the application of other existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the City's financial statements were as follows:

- a. Management's estimate of the fair value of investments is based on quoted prices in an active market. When quoted prices in active markets are not available, fair values are based on evaluated prices received by a third party service provider.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Sensitive Estimates (continued):

- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. Management's estimate of contributed capital is based on amounts provided by the third party that constructed the improvements.
- d. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.
- e. The annual required contributions, pension expense, net pension liability and corresponding deferred outflows of resources and deferred inflows of resources for the City's public defined benefit pension plans with CalPERS are based on actuarial valuations provided by CalPERS.
- f. The Other Post-Employment Benefit Plan (OPEB) expense, total OPEB liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's OPEB plan are based several key assumptions that are set by management with the assistance of an independent third party actuary. These key assumptions include anticipated investment rate of return, health care cost trends, mortality and certain amortization periods.
- g. Management's estimate of the claims payable liabilities related to general liability and workers' compensation claims are based on estimates by the claims administrators.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 6 regarding the City's claims payable, Note 11 regarding the City's other post-employment benefits plan, Note 14 regarding the CalPERS defined benefit plan, Note 17 regarding related party transactions, and Note 19 regarding the restatement of prior year financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements (Continued)

In addition, the following material misstatements detected as a result of audit procedures were corrected by management:

- Adjust the general ledger cash accounts to agree to the bank reconciliations.
- Record a decrease to accounts payable and expenditures for invoices attributable to the next fiscal year.
- Adjust the general ledger to agree amounts to the capital asset detail records.
- Record depreciation expense for certain capital asset categories, such as contributed capital.
- Adjust the beginning net position to agree to the prior year audited financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 30, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the schedule of proportionate share of the net pension liability - safety plan, the schedule of contributions - safety plan, the schedule of changes in the net pension liability and related ratios - miscellaneous plan, the schedule of contributions - miscellaneous plan, the schedule of changes in the total OPEB liability and related ratios, and the schedule of revenues, expenditures and changes in fund balance - budget and actual for the general fund, which are required supplementary information (RSI) that supplements the basic financial statements.

Other Matters (Continued)

Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the consolidating general fund financial statements, individual general fund sub-fund budgetary comparison schedules, combining and individual nonmajor fund financial statements and budgetary comparison schedules (supplementary information), which accompany the basic financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the basic financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance.

Upcoming Changes in Accounting Standards and Regulatory Updates

Procurement Rules under Uniform Guidance

The Uniform Guidance has different procurement rules than those previously required by the Circular A-133. Due to the work required by nonfederal entities to implement these new rules, a two-year grace period was given. In May 2018, an additional one-year grace period was given. Beginning July 1, 2018, nonfederal entities will be required to comply with all of the Uniform Guidance procurement rules. Included in these new rules is the requirement for written policies and procedures.

Commencing with the fiscal year 2018-2019 audits, auditors will request the written policies of the nonfederal entity for all single audits and reviewing the procurement policies and procedures for compliance with the Uniform Guidance procurement rules.

Debt Management Policy

Government Code Section 8855(i) requires any issuer of public debt to provide to the California Debt and Investment Advisory Commission (CDIAC), a Report of Proposed Debt Issuance no later than 30 days prior to the sale of the debt securities. Effective January 1, 2017, SB 1029 requires issuers of public debt to certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies.

The purpose of a debt management policy is to establish guidelines governing the issuance of debt or other financial obligations. It provides a framework for debt issuance, capital planning, and post-issuance debt administration. A debt management policy establishes conditions for use of debt, to ensure that debt capacity and affordability are adequately considered, to minimized interest and issuance costs, to maintain the highest possible credit rating, to provide complete financial disclosure and reporting, and to maintain financial flexibility.

Debt Management Policy (Continued)

California state and local governments should review the amended provisions of Government Code Section 8855 either to ensure that their existing debt management policy have been updated for the new requirements resulting from the adoption of SB 1029, or to develop and adopt the required debt management policy.

Restriction on Use

This information is intended solely for the information and use of City Council and management of the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
January 30, 2019



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and
Members of the City Council
of the City of Laguna Beach
Laguna Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California (the City), as of and for the year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Year-End Closing Procedures

Auditors' Comment and Recommendation

Our audit resulted in audit adjustments to the general ledger, which are as follows:

Capital Assets

During our review of capital assets, we noted the following: (1) some of the roll-forward beginning balances did not agree to the prior year ending balances, (2) some detail schedules did not agree to the general ledger, and (3) some asset classes were missing depreciation expense since they were not included in the City's capital asset software system. Audit adjustments were needed to correct these issues. We recommend the City develop policies and procedures surrounding capital assets to ensure the detail schedules agree to the general ledger and that all asset classes have depreciation expense.

Accounts Payable

During our search for unrecorded liabilities, we noted that the City recorded an expense and a payable for invoices attributable to the next fiscal year. We recommend the City develop policies and procedures to review all invoices paid after year-end for accrual to verify they are recorded in the appropriate accounting period.

Bank Reconciliations

During our review of bank reconciliations, we noted that the bank reconciliations ending balances did not agree to the general ledger and required further investigation and audit adjustments to correct. We recommend the City develop policies and procedures to do the following: (1) record bank reconciliation journal entries in a timely manner and (2) develop a schedule that clearly shows how the total adjusted balances from all the bank reconciliations for all cash and investment accounts, including agency fund and recreation cash accounts, agree to the general ledger balance at month-end.

Management's Response

Capital Assets:

A written capitalization policy has been developed and is pending final review by City departments. After the department review, the policy is expected to be formally incorporated into the City's Administrative Policy. Also, in Fiscal Year 2018-19, the Finance staff will migrate assets tracked using Microsoft Excel into the Springbrook fixed asset system. These additional actions will ensure that fixed assets details agree to the general ledger and that depreciation expense is correctly calculated for all asset classes.

Accounts Payable:

The Finance Division will review its procedures regarding the identification of year-end accruals. However, this error appears to be an isolated incident that existing internal controls should prevent in the future.

Year-End Closing Procedures (Continued)

Management's Response (Continued)

Bank Reconciliations:

This comment was related to several checks voided in Fiscal Year 2018-19 that impacted cash in Fiscal Year 2017-18. However, the June 2018 bank reconciliation was not updated to include this reconciling item. The Finance staff has implemented a new procedure to perform a secondary review of all bank reconciliations. This new procedure is designed to reconfirm that the adjusted balance from all bank reconciliations matches the general ledger and capture any changes to the monthly cash balances that may have occurred after the first review of the bank reconciliations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management and the City Council in a separate letter dated January 30, 2019.

City's Response to Finding

The City's response to the finding identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
January 30, 2019



To the Honorable City Council
of the City of Laguna Beach
Laguna Beach, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California (the City) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated January 30, 2019, on the financial statements of the City. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies.

Our comments with our recommendations for improvement are summarized as follows:

Capitalization Policy

Auditors' Comment and Recommendation

During our review of capital assets, we noted that the City does not have a written capitalization policy. We recommend that the City adopt a written capitalization policy establishing thresholds for what is considered a capital asset addition and what is considered an expense. In addition, the policy should detail the procedures for additions and deletions of capital assets and the related documentation required.

Management's Response

A written capitalization policy has been developed and is pending final review by City Departments. After this final review, the policy is expected to be formally incorporated into the City's Administrative Policy.

Deposits

Auditors' Comment and Recommendation

The City collects deposits from developers and others that are typically refundable upon satisfaction of certain City terms. In some cases, the depositor forfeits the deposit, which the City would then record as revenue. During our review of deposit payable accounts, we noted that some deposit balances that are older than five years, which indicates that the deposit may need to be refunded or recognized as revenue. We recommend the City analyze its outstanding deposits payable balances to determine the true balance of deposits payable that constitutes refundable deposits. Status of old deposits should be researched and adjusted if necessary.

Management's Response

The Finance Division is working with the Community Development Department to develop a procedure to review annually a sample set of developer deposits older than five years to verify if the deposit should be refunded, remain, or recognized as revenue. Also, the Finance Division is working with Community Development to perform a comprehensive review of developer deposits every five years. This review is expected to begin in the Fiscal Year 2019-20.

City's Responses to Findings

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Coors LLP

Irvine, California
January 30, 2019



YAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

City Council and City Treasurer
City of Laguna Beach, California

We have performed the procedures enumerated in Attachment A, which were agreed to by you and the City of Laguna Beach (City) (the specified parties), on the City's compliance with the Laguna Beach Investment Policy as of March 31, 2018. The City Treasurer is responsible for compliance with the Investment Policy. The sufficiency of these procedures is solely the responsibility of the City Treasurer. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purposes.

The procedures and associated findings are listed in Attachment A.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's compliance with the Laguna Beach Investment Policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The City Treasurer's responses to certain findings are included in Exhibit 1. The responses are included for the purposes of additional information and were not subjected to the procedures described above. Accordingly we did not perform any procedures on the City Treasurer's responses and express no assurance or opinion on them.

This report is intended solely for the information and use of the City Council and the City Treasurer and is not intended to be and should not be used by anyone other than those specified parties.

Yavrinek, Trine, Day & Co., LLP

Laguna Hills, California
November 5, 2018

**AGREED-UPON PROCEDURES
ATTACHMENT A
FOR THE PERIOD ENDED MARCH 31, 2018**

Procedures and Findings

1. We obtained a copy of the annual Investment Policy of the City for the most recent year, and inspected evidence that the policy was rendered to and adopted by a resolution of the City Council.

Results: We inspected the minutes of the City Council meeting held on December 5, 2017, item 9. The 2018 City of Laguna Beach Investment Policy was rendered to and adopted by the City Council as Resolution No. 17.074. No exceptions were identified as a result of applying this procedure.

2. We obtained a current list of authorized financial dealers as of March 31, 2018. We obtained and inspected evidence that each authorized financial dealer were provided and agreed to abide by the City of Laguna Beach Investment Policy.

Results: We obtained a current list of authorized financial dealers from the City Treasurer (dated December 31, 2018), noting five dealers. The City Treasurer asserted each authorized financial dealer was provided an updated copy of the investment policy described in procedure 1. We also inspected certifications for each of the five dealers with a statement that they "have read the City of Laguna Beach's Investment Policy and the laws of the State of California related to authorized and suitable investments", and that they will "only offer such authorized and suitable investments for sale to the City." No exceptions were identified as a result of applying this procedure.

3. We determined that each of the specific requirements of the City's Investment Policy complies with applicable sections of the California government code.

Results: We obtained the City's Investment Policy, approved by the City Council on December 5, 2017, and compared the requirements with applicable sections of California Government Code Section 53601. No exceptions were identified as a result of applying this procedure.

4. We obtained the investment report for the month ended March 31, 2018. We inspected evidence that the report was prepared and delivered to the City Council and City Manager.

Results: We inspected the City Council meeting minutes on May 8, 2018, which included the March 2018 Investment Report. Per inspection of the Agenda Bill item 4 for May 8, 2018, the Agenda Bill which included the March 2018 Investment Report was signed by the City Manager. No exceptions were identified as a result of applying this procedure.

5. For the investment report for the month ended March 31, 2018:

- a. We determined that each investment class had not exceeded the maximums allowed by the Investment Policy.

Results: No exceptions were identified as a result of applying this procedure.

- b. We determined that the investments had been diversified and that the various investment types in total were in compliance with the Investment Policy.

Results: No exceptions were identified as a result of applying this procedure.

**AGREED-UPON PROCEDURES
ATTACHMENT A
FOR THE PERIOD ENDED MARCH 31, 2018**

- c. We inspected the report for evidence that the type of investment, issuer's name, date of maturity, par value and market value was reported for each security.

Results: We noted the investment type, issuer's name, date of maturity, par, market value, and dollar amount were reported for each security. No exceptions were identified as a result of applying this procedure.

- d. We traced all balances to third party bank or investment statements and bank reconciliations, as applicable.

Results: We traced investment balances to third party investment statements and bank reconciliation, as applicable. No exceptions were identified, except as described below for the Bank of America accounts:

- Bank of America (\$659,814 on Investment Report) – this includes multiple bank accounts, whose balances were obtained from the general ledger. We obtained the bank reconciliations and related bank statements for the accounts listed (10 accounts in total, one which includes 7 sub-accounts). No bank reconciliation was provided for the March 2018 Parking Meter (change fund). Refer to total per investment report compared to related bank statements and reconciliations below:

Account name	Balance per investment report and general ledger	Balance per bank	Adjusted bank balance per reconciliation
General Account	\$ 196,270	\$ 724,118	\$ 352,276
Recreation*	30,997	311,914	318,611
Parking Meter (change fund)*	25,500	12,228	-
Finance Petty Cash*	2,600	1,690	1,529
Flexible Benefits	56,450	53,584	53,530
Police Warrant	10	10	-
Workers Comp	75,000	74,226	75,000
Citizen Academy	3,893	3,893	3,893
Ranch	250,050	250,052	250,056
Laguna Beach Honor Guard**	-	5,735	5,735
Escrow Online Master	19,044	19,044	19,044
	<u>\$ 659,814</u>	<u>\$ 1,456,494</u>	<u>\$ 1,079,674</u>

* Imprest Account

** Added to General Ledger on 6/20/18

Reconciling differences between balances per the investment report, balances per the bank statements, and adjusted bank balances per reconciliations relate to reconciling items such as outstanding checks, deposits in transit, and items reported on imprest accounts not yet recorded in the general ledger through journal entries.

For the Recreation account, the Finance department has asserted the general ledger balance of the account is updated at June 30, 2018, not monthly.

**AGREED-UPON PROCEDURES
ATTACHMENT A
FOR THE PERIOD ENDED MARCH 31, 2018**

- e. We inspected the report for evidence of a statement by the City Treasurer that the portfolio was in compliance with the Laguna Beach Investment Policy, or manner in which the portfolio is not in compliance, and included a statement regarding the ability to meet cash flow needs for the next six months.

Results: We obtained the final March 2018 Investment Report and noted the following statement was included:

“I verify that the investment portfolio is in conformity with California laws and the Treasurer’s Investment Policy which is approved annually by the City Council. The Treasurer’s cash management program provided sufficient liquidity to meet expenditure requirements for the next six months.

No exceptions were identified as a result of applying this procedure.

- f. We recalculated the report totals.

Results: We recalculated the report totals noting a calculation error in the Federal Agency Securities long term and short term balances. Long-term Federal Agency Securities were overstated and short-term Federal Agency Securities were understated by \$995,980. No other exceptions were identified as a result of applying this procedure.

- 6. We obtained a listing of the investment purchase transactions during the period of July 1, 2017 through March 31, 2018. We selected five purchase transactions. For each transaction, we performed the following:

- a. We inspected the Bloomberg screens and/or trade ticket to determine whether the investment is an allowable investment within the City’s Investment Policy.
- b. We inspected the Bloomberg screen and/or trade ticket for evidence that only authorized persons initiated the investment transactions from an authorized financial dealer.
- c. We agreed the investment purchases to the custodian statement of the month of purchase. If held at as of March 31, 2018, we agreed the purchase to the Investment Report described under procedure 5.

Results: No exceptions were identified as a result of applying this procedure.



Exhibit 1

November 5, 2018

To: Hon. Mayor Boyd
Councilmembers

From: Laura Parisi, City Treasurer *Laura Parisi*

Subject: City Treasurer Responses to 2018 Vavrinek, Trine, Day & Co. Report on the City Treasurer's Compliance with the City Council's Investment Policy as of March 31, 2018

An independent review by the external audit firm, Vavrinek, Trine, Day & Co. was arranged to complete the semi-annual testing of the compliance with the policies and procedures set forth in the Investment Policy. All procedures were completed without exceptions other than the following;

5.d. The bank reconciliation for the recreation account showed a different balance than that reported in the general ledger at March 31, 2018. The same finding was noted as a significant deficiency in internal controls during the annual audit on June 30, 2017 and the Finance Staff stated that the account would be reconciled in their December 28, 2017 response. However, the Finance Staff reconciled the account as of June 30, 2018 but has indicated that they plan to reconcile the account quarterly.

Also, an account that existed on March 31, 2018 called Laguna Beach Honor Guard was not in the General Ledger and it was not opened under the City of Laguna Beach Taxpayer Identification number by the City Treasurer. It was added to the general ledger on June 20, 2018.

The general ledger must be used to produce the Investment Report that is required by the Investment Policy. At March 31, 2018 it did not accurately report cash in the funds nor the Bank of America accounts. The City Manager was notified and the notification was copied to the City Council, City Attorney and Director of Finance and or the Director of Administrative Services. Subsequent investment reports were modified to disclose the difference by including the Bank of America bank statement balances and the general ledger book balances reflected in the Investment Report to fully disclose fund balances to the report reader. Additionally, a footnote was added to alert the reader of the Investment Report to the matter.

5.f. The City Treasurer agreed that a security that will mature in less than a year was inadvertently not moved to the short-term classification. An Excel spreadsheet formula correction was made to move the security from the long-term to the short-term classification.



Government Finance Officers Association

Audit Committees

Type:

Best Practice

Background:

Three main groups are responsible for the quality of financial reporting: the governing body,¹ financial management, and the independent auditors. Of these three, the governing body must be seen as "first among equals" because of its unique position as the ultimate monitor of the financial reporting process.² An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.³

Recommendation:

GFOA makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body⁴ of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible⁵ for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.⁶ Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;⁷
- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.⁸ The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in

applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;⁹

- All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;
- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;¹⁰
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;¹¹
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;
- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.¹² The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls¹³;
- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities¹⁴; and
- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,¹⁵ and privately among committee members,¹⁶ and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

Committee:
Accounting, Auditing, and Financial Reporting
Notes:

¹ For the purposes of this recommended practice, the term governing body should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do not exercise managerial responsibilities within the scope of the audit. The term "governing body" also is intended to encompass appointed bodies such as pension boards.

² *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Overview and Recommendations.

³ Securities and Exchange Commission (SEC) Regulation 33-8220, Background and Overview of the New Rule and Amendments.

⁴ For the purposes of this recommended practice, the term "governing body" should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial

responsibilities within the scope of the audit. The term governing body also is intended to encompass appointed bodies such as pension boards.

⁵ Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

⁶ Sarbanes Oxley Act, Section 301.

⁷ *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 4.

⁸ *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be kept in mind when considering the appropriate length of service for audit committee members.

⁹ Sarbanes-Oxley Act, Section 407.

¹⁰ In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by sunshine laws and similar open meetings legislation.

¹¹ SEC Regulation 330-8220, Background and Overview.

¹² Sarbanes Oxley Act, Section 301.

¹³ *Internal Control Integrated Framework: Guidance on Monitoring Internal Control Systems* (Discussion Document of the Committee of Sponsoring Organizations COSO, 2007), page 10.

¹⁴ Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

¹⁵ It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such encounters in these limited circumstances.

¹⁶ It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such an encounter in these limited circumstances.

Approved by GFOA's Executive Board:
October 2008

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ATTACHMENT B

Committee 2020 Calendar

AUDIT REVIEW AND MEASURE LL OVERSIGHT COMMITTEE 2020 CALENDAR

Wednesday, January 29, 2020	Regular meeting to appoint new Chair and Vice-Chair, and discuss Measure LL
Wednesday, February 12, 2020	Regular meeting with Public Works and Marine Safety regarding Measure LL
Wednesday, February 26, 2020	Regular meeting with Police and Fire Chief
Wednesday, March 11, 2020	Regular meeting to discuss Measure LL Report
Wednesday, March 25, 2020	Regular meeting to discuss Measure LL Report (if necessary)
Tuesday, April 7, 2020	Presentation of FY 2018-19 Measure LL report to the City Council
Wednesday, May 13, 2020	Regular meeting to discuss 2018-19 Audit Report and select subcommittee
Wednesday, May 27, 2020	Regular meeting to discuss 2018-19 Audit Report
Wednesday, June 10, 2020	Regular meeting to discuss 2018-19 Audit Report
Wednesday, June 24, 2020	Regular meeting to discuss 2018-19 Audit Report (if necessary)
Tuesday, July 14, 2020	Presentation of 2018-19 Audit Report to the City Council.
Wednesday, September 9, 2020	Regular meeting to appoint new Chair and Vice-Chair, and discuss Measure LL
Wednesday, September 23, 2020	Regular meeting with Public Works and Marine Safety regarding Measure LL
Wednesday, September 30, 2020	Regular meeting with Police and Fire Chief
Wednesday, October 14, 2020	Regular meeting to discuss Measure LL Report
Wednesday, October 28, 2020	Regular meeting to discuss Measure LL Report (if necessary) Tuesday,
November 17, 2020	Presentation of FY 2019-20 Measure LL report to the City Council