City of Biggs

Agenda Item Staff Report
for the next regular City Council Meeting:
February 27, 2012 6:00PM

DATE: February 23, 2012

TO: Honorable Mayor and Members of the City Council

FROM: Pete Carr, City Administrator

SUBJECT: Annual Financial Audit (Action – accept auditor report)

Outside auditor will present summary report to Council.

Background:

Biggs employs an independent CPA firm to audit the City's books annually. Following a request-for-proposals process, the City in 2011 selected Donald R. Reynolds to provide this service for the 2010-2011 fiscal year.

Mr. Reynolds' audit report is complete, and he will present his summarized report verbally to the Council February 27th. The report and management letter have been provided electronically to the Council. Printed copies will be made available to the public and other agencies after acceptance by the City Council. A digitized copy will be also be posted at the City website.

Attachments (2):
Fiscal year 2010-2011 audit report [provided electronically]
Auditor management letter

Recommendation:

Accept report.

Fiscal Impact:

N/A

Donald R. Reynolds
Certified Public Accountant

December 29, 2011

The Honorable City Council
City of Biggs
Biggs, California

In planning and performing our audit of the basic financial statements of the City of Biggs for the fiscal year ended June 30, 2011, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist City of Biggs in implementing the recommendations.

This report is intended solely for the information and use of management, the City Council, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank the City of Biggs's staff for their cooperation during our audit.

Respectfully,

Donald R. Reynolds, CPA

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Honorable City Council
City of Biggs

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Biggs for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered The City of Biggs's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether The City of Biggs's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The City of Biggs are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimate(s) affecting the financial statements was (were):

Management's estimate of the accrual and disclosure of compensated absences is based on employees pay rates and unused compensated balances at the end of the year. We evaluated the key factors and assumptions used to develop the accrual and disclosure of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the capital assets lives and depreciation expense is based on the class/type of asset, internal revenue service guidelines, and client's experience. We evaluated the key factors and assumptions used to develop the capital assets lives and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the self-insurance losses is based on the City's prior experience and known liabilities at the end of the year. We evaluated the key factors and assumptions used to develop the self-insurance losses in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

Accrual and disclosure of compensated absences.
Capital assets lives and depreciation expense.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, we have previously discussed with management and the previous City Finance Director and staff, inadequacies and material weaknesses in the City of Biggs's internal control systems. These inadequacies and material weaknesses as noted in this report and the City of Biggs's single audit report resulted in a high risk audit engagement.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. I noted the following correction that I did not consider to be a material weakness:

11-FS-01 CAPITAL ASSETS

Condition

At the time of my audit I noted that the capital assets listing presented for audit did not include all assets listed in the prior year's prior period adjustment to record constructions in progress for infrastructure that was expensed in prior years.

Cause

In prior year the City did not adequately review and reconcile the asset master list to the general ledger.

Criteria

Good internal control over capital assets requires that an accurate, current detail listing of all capital assets including historical cost, useful life, date acquired and accumulated depreciation be maintained.

Effect of Condition

Infrastructure assets as presented for audit were misstated and required adjustment.

Recommendation

I recommend that the City adequately review the capital asset list to ensure that all assets including infrastructure are properly calculated and that all assets are included.

Corrective Action Plan

Management became aware of the issues during the year end closing process. Management will continue to be proactive in its efforts to ensure that capital asset financial data is as accurate as possible.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 December 29, 2011.

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 governmental unit'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. The City employs a contract Certified Public Accountant to

assist the City in dealing with is financial matters on a day to day basis. To our knowledge, there were no other such consultations with other accountants.

Other Matters

We noted that the City has certain weaknesses in internal control as noted below:

11-FS-02 UTILITY BILLING

Condition

During my review of the internal control of the utility billings, I observed that the accounts receivable clerk was responsible for preparing, mailing, and receiving payments for the utility bills. This is a repeat of a prior year finding.

Cause

Due to the limited staff there is not adequate segregation of duties over utility billings.

Criteria

Generally accepted accounting principles require that proper segregation of duties be maintained to insure against errors or irregularities occurring and not being detected in a timely manner.

Effect of Condition

There was not proper segregation of duties in the processing of utility billings.

Recommendation

I recommend that consideration be given to segregating the preparation and mailing of the utility bills from the receipt collection process.

Corrective Action Plan

Management has determined that utility billing duties are distributed as well as possible given continued limited staffing.

Management has acknowledged this weakness in prior audits but continuing budget constraints make it unlikely that staffing changes will be made anytime soon. Management is aware of the problem and is taking as many steps as possible to mitigate the issue.

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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our

responses were not a condition to our retention.

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

Very truly yours,

Donald R. Reynolds
Certified Public Accountant