



Agenda Report

Fullerton City Council

MEETING DATE: NOVEMBER 20, 2018

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: KENNETH A. DOMER, CITY MANAGER

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SUBJECT: CITY OF FULLERTON AUDIT DISCUSSION

SUMMARY

At the October 2, 2018 City Council meeting, staff was directed to provide follow-up discussion material regarding the various types of audits that are utilized by government agencies, particularly the City of Fullerton.

RECOMMENDATION

Receive and file.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement/s:

- Fiscal and Organizational Stability.

FISCAL IMPACT

No fiscal impact.

DISCUSSION

Overview

Governmental audits and auditing standards have been well defined by the United States Government Accountability Office (GAO) Comptroller General. These standards are referred to as Generally Accepted Governmental Auditing Standards (GAGAS) and are contained in what is generally referred to as the "Yellow Book", published and updated periodically by the GAO. The standards provide the foundation for auditors to follow in the areas of independence, transparency, accountability and quality of audits. Additionally, it is helpful to understand certain aspects of these standards as a

framework for discussing the audit environment and types of audits that the City undergoes on a regular and non-regular basis.

The standards describe three types of audit engagements: 1) Financial Audits, 2) Attestation Engagements and 3) Performance Audits. The City regularly undergoes all three types of audits as part of legally required financial statement audits, grant requirements, agreed-upon procedures, tax audits, etc.

Financial Audits

Financial audits provide independent assessments of whether reported financial information is presented fairly in accordance with recognized criteria. Financial statement audits also include reports on internal control over financial reporting and compliance with provisions of laws, regulations, contracts and grant agreements. The City is required by law to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and to have those financial statements audited by an independent CPA firm. This audit is commonly referred to as the "CAFR Audit" and is the most common example of a "financial audit". The City has engaged an independent CPA firm to perform these types of audits.

Attestation Engagements

Attestation engagements cover a broad range of financial and/or non-financial objectives where the subject matter or assertion is measured against suitable criteria. There are three types of attestation engagements: 1) examinations, includes highest level of assurance, 2) reviews, includes limited level of assurance and 3) agreed-upon procedures, includes reports of findings without providing an opinion on anything other than the results of the procedures performed. The City has engaged an independent CPA firm in the past to perform agreed-upon procedures as necessary and to provide assurance as to the reasonableness and accuracy of calculations and transactions.

Performance Audits

Performance audits provide objective analysis, findings and conclusions to assist management and those charged with governance and oversight with improving performance. These types of audits may be performed by external grant funding agencies or through internal audit activities. The City has had performance audits conducted by external funding agency auditors in the past along with internal audit activities.

Additional Procedures/Reviews/Audits

Upon approval by the City Council and appropriate funds, the City can have its external auditor, or another third party auditor, perform additional services as part of the normal external audit process or as a stand-alone agreed upon procedural review. With the issuance of a new Request for Proposal for auditing services, it is the intent of the City Manager to provide to the Council an additional scope services in which to individually select, or work with the auditor to schedule these various additional checks on the City's financial controls. A preliminary scope of such services from which to choose or schedule is:

- Perform a review of Compensation for the five members of the Executive Team, which will include a review of the changes in pay rates for the Executive Team and determine if changes were authorized and supported by appropriate documentation. This will also include reconciling authorized pay with payroll records.
- Perform a review of Compensation for Other Employees, which will include a review of all changes in pay rates, employee status and benefits for a specified number of employees of the Agency not already identified in the Review of Compensation for the Executive Team stated in item above. Procedures will demonstrate verification of adequate approval for actual pay and changes made to employee record and benefits.
- Provide an option to perform a review of Investment Transactions. The Agency may request a review of 10 transactions per month to determine that the investments made by staff were in compliance with the Agency's Investment Policy.
- Provide an option to perform a review of Financial Institution Wire Transfers. The Agency may request a review of 10 wire transfers per month out of the financial institutions as reported on bank or investment statements to ensure that all transfers are properly authorized and accounted for.
- Provide an option to perform a review of Journal Entries. The Agency may request a review of 10 journal entries per month (including budget entries) to ensure that journal entries are made with adequate support and proper approval.
- Provide an option to perform a review of Bank Reconciliations. The Agency may request a review of 4 operating bank reconciliations to verify correctness of reconciliation, verify reviews performed, and determine the appropriateness and adequacy of support for reconciling items.
- Provide an option to perform a review of Cash Receipts. The Agency may request a review of 10 cash receipts per month (to be selected from all cash receipts locations) to ensure that the amount reflected on receipt documentation agrees with the amount reflected in the general ledger and the amount reflected on the bank statement.
- Provide a detail review and summarization of credit card transaction (i.e. ProCard). The Agency may select up to 10 credit cards for a review of 12 months of transactions per credit card. Perform a review of each transaction against the Agency's purchasing/ProCard Use Policies. Identify each transaction and evaluate for inconsistencies with City's Policies. Any inconsistencies will be investigated and reported to Agency.
- Provide a review of warehouse inventory controls. Interview warehouse employees and document review of procedures. Identify segregation of duties deficiencies or other internal control weaknesses. Sample inventory purchases against inventory recording and inventory values. Perform an inventory count

floor to list and list to floor and identify any discrepancies in count versus inventory system.

- Provide an option to perform a review of vendor contracts. The Agency may request a review of 5 vendor contracts to ensure the procurement policy of the Agency was followed, change orders are approved and the services provided by vendors are monitored to ensure the contract is completed as intended.
- Provide an option to perform a review of non-cash adjustments to customer accounts in the Utility Funds. A review of 12 months of non-cash adjustments to customer accounts to ensure the adjustments are properly reviewed, approved and appear reasonable.
- Provide an option to perform a review of fuel inventory. The Agency may request a review of the fuel inventory controls and procedures for fuel use, fuel purchases, and fuel storage controls and monitoring procedures.
- Provide an option to perform a review of grant management procedures and controls for one (1) specific grant or (1) specific department with multiple grants. The grant management review would focus on the collection, tracking, reporting, and reconciliation of grant monies.

The specific scope and cost of each of these example services, to include others that may be warranted or requested, would be worked out with the auditing firm.

Upcoming City Audit Activity

The fiscal year 2017-18 Comprehensive Annual Financial Report (CAFR) is currently being audited by an independent CPA firm, as required by law, and will be presented to the Council in December with no anticipated audit findings relating to the accuracy of the presented information. The Fiscal Year 2017-18 federal Single Audit will be performed by an independent CPA firm in December 2018 / January 2019 and will be presented to the Council in March / April 2019. An RFP for financial statement, Single Audit and ad-hoc audit services will be released in January / February 2019 with an anticipated contract to be executed in April / May 2019. The contract will include performance of the annual financial statement audit, federal Single Audit and hourly rates for additional ad-hoc audit services to be performed. Staff will bring back an action item for the City Council to consider which types of ad-hoc audit services are deemed warranted for the upcoming Fiscal Year.

Attachments:

- Attachment 1 – PowerPoint