

Questions for auditors:	Response from Auditors:
Filename Questions for auditors v16 9 1 2019	
<p>1. Were staff responses to comments and recommendations in the management letters adequate? <b>(More Detail needed – perhaps item by item) For example: GAS Letter: Capital Assets 1,2,3 – does response adequately address 1, 2, &amp; 3?</b></p>	<p><del>Yes, and the auditors will continue to follow up.</del></p>
<p>2. Is the “Management’s Discussion and Analysis” section of the Comprehensive Annual Financial Report considered a part of the audit? Do the auditors review that section? Does the auditor’s opinion encompass Management’s Discussion and Analysis?</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.</p> <p><b>Does the audit cover the water district?</b></p>	
<p>3. 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. 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>4. (“GAS Letter) The Report on Compliance and Other Matters and on Internal Controls - the letter noted three significant deficiencies:</p> <p><b>Capital Assets:</b> Though there was a comment in last year’s letter regarding Capital Assets, the issue was different from the issue discussed this year. The committee needs to check with the auditors to confirm this issue has not recurred and that the response in last year’s letter has been implemented to the satisfaction of the auditors.,</p> <p><b>Accounts Payable</b> Do we feel the response is responsive?</p> <p><b>Bank Reconciliations</b> Do we feel the response is responsive? What’s the order of magnitude?</p> <p>Though there was a comment in last year's letter regarding Bank Reconciliations, and the description of the surface issue is the same: <b>“the bank reconciliations ending balances did not agree to the general ledger”</b> – underlying issues were different from the issue discussed this year. The committee needs to check with the auditors to confirm this issue has not recurred, to confirm these are different issues, and that the response in last year’s letter has been implemented to the satisfaction of the auditors.</p> <p><b>Compliance and Other Matters</b></p>	

<p>The letter also stated that certain other matters were reported in a separate letter dated January 30, 2019 as described below. (Which letter? – Management letter (“SAS 115 letter”?)</p> <p>It looks like the “Compliance” comments are unchanged from the prior year.</p>	
<p>5. “GAS” Letter: Should we repeat this question?</p> <p>The (“GAS”) letter titled “independent Auditors’ Report on Internal Control Over Financial Reporting and On Compliance and Other Matters...” 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 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>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>Among other things the city could do if it wanted to do more would be to add a review of “Agreed Upon Procedures” to the scope of work. However, that would be uncommon. Generally, if the auditors saw a problem they would say so. This might be more applicable to smaller cities are generally more robust is attention to these issues. When asked about the auditors’ sense of level of qualification of the staff, the auditors stated that was not a concern. The auditors also volunteered that the staff was very responsive to the auditors.</p>
<p>6. Review comments on SAS 114 Report with auditors (See above)</p>	
<p>7. Should we repeat this question?</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>The auditors stated that the SAS114 letter is a powerful tool in that it is an opportunity for the auditors to express concerns if they have any.</p>
<p>8. Should we repeat this?</p> <p>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? And, if that requires additional auditor involvement, how would that impact the cost of the audit to the City?</p>	<p>The auditors did not recommend additional work such as what is referenced above, but stated that the cost of such work, if requested would be relatively modest – a few thousand dollars.</p>
<p>9. Should we repeat this? Answered last year.</p> <p>While the SAS114 report contains a number of positive statements, it also states: “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.” The</p>	<p>The auditors stated it is okay to reference the SAS114 letter and its contents in a report.</p>

committee requests clarification of this statement in terms of whether the scope of our review is intended to include a review of this letter	
<p>10. 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 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>Does the City have a debt policy? Does it comply with Government Code Section 8855 as impacted by SB 1029?</p>	
<p>11. SAS 115 – Management Letter: Review comments on SAS 115 letter with auditors (See above)</p>	
<p>12. Should we repeat this?</p> <p>Please provide any appropriate input regarding the functions, roles, and relationship to outside auditors of Audit Committees with which the auditor is familiar. 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>	<p>The auditors commended the City of Laguna Beach for setting up a citizens Audit Oversight Committee saying few cities do that, and that 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>13. Should we repeat this?</p> <p>The Government Finance Officers Association statement of Best Practices for Audit Committees makes a number of recommendations including a recommendation that “The audit committee also should have access to the services of at least one financial expert” and that “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 responsibilities.” In the experience of the auditors, is this appropriate?</p>	<p>In the experience of the auditors, it would be uncommon for a Citizens Audit Oversight to engage outside financial experts, legal counsel, and other appropriate specialists. Independent of the conversation with the auditors, the committee had agreed at its last public meeting that it would request outside assistance of the City Council only on an as needed basis.</p>
<p>14. The Government Finance Officers Association statement of Best Practices for Audit Committees also recommends that “All members of the audit committee should be members of the governing body” which in this case would presumably mean members of the City Council. However, it also includes a footnote saying “The term “governing body” also is intended to encompass appointed bodies such as pension boards. Does the auditor believe the appointments comply with this best practice recommendation?</p>	<p>The auditors stated that an appointed committee was appropriate for this function.</p>
<p>15. The City of Laguna Beach has an extraordinary number of visitors yearly, which significantly impact both revenue to the city government and the cost to the city government of providing services to these visitors. Should future audits address this issue?</p>	<p>The auditors appreciated the issue but said they had never seen a city address the issue. If anything, they agreed it could be something of a cost accounting project.</p>

<p>16. 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. We understand there is a separate audit of the portfolio under the control of the treasurer, and that it is conducted every two years. Is that correct? What is the relationship between that audit and the City audit (CAFR)? Is two years an appropriate interval for that audit?</p> <p>Discuss</p>	<p>As a matter of routine, the audit includes a check of compliance and confirms investments and bank reconciliations. That is a big portion of the audit function. There is a separate review of Agreed Upon procedures conducted by a different firm every two years. Asked if it was normal to have a different firm than the firm doing the audit do the review of Agreed Upon Procedures, the auditors said that was not normal, but that decision was within the jurisdiction of the City Treasurer. Asked if two-year intervals were appropriate, the auditors felt it should be done annually. They also stated the cost would normally be modest. The auditors did review the last review of Agreed Upon Procedures and noted nothing major.</p>
<p>17. Prior Year Audit – have recommendation from the prior year audit been adequately implemented?</p>	<p>Yes – the auditors stated that there was nothing that had not been followed up upon.</p>
<p>18. Audit plan letter – Did the audit follow the audit plan? Does the audit conform to the plan?</p>	<p>Yes – the audit did conform to the audit plan.</p>
<p>19. Public input — The City (and the audit oversight 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 and by the public of concerns regarding questionable accounting or auditing matters. Can the auditors make suggestions about whether this is appropriate, and, if so, can the auditors make suggestions about how best to do this?</p>	<p>The auditors agreed it is appropriate for the city to have some procedures for public input regarding financial matters and that some cities have a hotline.</p>
<p>20. Would using an outside service for payroll provide a more secure process and alleviate the many reviews that the finance department have to do?</p>	<p>While there could possibly be benefits to having an outside service for payroll, the auditors stated it was uncommon since city payroll is complicated, especially the public safety payroll. They stated that some smaller cities use outside firms for this function.</p>
<p>21. Would reconciling the Recreation account weekly rather than monthly help keep it up to date?</p>	<p>Yes, but the auditors questioned whether the benefit would justify the cost.</p>
<p>22. Additional questions about Note 14 — Pensions.</p>	<p>There was additional conversation regarding Note 14, explaining the format for the presentation, differences between the safety cost sharing and miscellaneous</p>

	plans, clarifying the rate of investment returns used in calculating unfunded pension obligations, and the sensitivity analysis in the footnote.
23. Scope of Audit – See Ara Hovnanian’s application language: --Compare audit to budget “A routine part of an audit of a governmental organization is to review and authenticate expenditures for propriety as they relate to properly authorized budgets and appropriations.” Does the audit do this?	
24. Total Debt – can we compare to other cities?	
25. Total Unfunded Pension obligations – can we compare to other cities?	
26. Page 72: Bottom: Does this work out to 7.15%? Why not show it?	
27. Page 73: Table re Miscellaneous Plan: Does this mean going forward liabilities will be? And the value of contributions and earnings to date against that are?	
28. #76 - Page 71 – CHANGE IN FOOTNOTE compared to June 30, 2017, CAFR: <ul style="list-style-type: none"> <li>• Current CAFR 6/30/2018: <b>Changes of Assumptions:</b> 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.</li> <li>• Prior CAFR for FYE 6/30/2017: Page 73: <b>Subsequent Events:</b> 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. <u>For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017 measurement date reports</u> and will result in an increase to employer’s total pension liabilities.</li> </ul> Please clarify: Was the calculation for based on 6/30/2018 based on 7.15%? Was the calculation for based on 6/30/2018 based on 7.65%? What will the calculation for fye 6/30/19 be based on?	
29. Comment on VTD Letter?	
30. Comment on Heidenreich & Heidenreich Peer Review of White Nelson Diehl & Evans	
Comment on Award?	
31. Page 6 – Table A-1 – why are these different? (item 15 on list)	
32. (24b on list) – Page 14 – Sewer debt – is it serviced by ratepayers or general Fund?	

33. Did auditor check to see that funds spent were to budget – see page 13 – management discussion and analysis	
34. See Questions #24 – Page 13 – the budget is discussed. So, does the audit include comparison of budget to CAFR? At least that expenditures were authorized? See also page 86 & 87	
35. See Questions #37 – Page 30 Why does city do cash flow for proprietary funds and not for other funds?	
36. See Questions 49 – 55 – RE GASB changes: Do these impact the city and, if so, how do they impact the city?	
37. #50 – 55 – Page 43 -- GASB 83, 84, 87, 88, 89, 90	
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