CITY OF
HAYWARD
HEART OF THE BAY

DATE: January 10, 2018

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT Transmittal of the Comprehensive Annual Financial Report for the Year Ended June 30, 2017; and of the Memorandum on Internal Control and Required Communications

RECOMMENDATION

That the Committee reviews the attached Comprehensive Annual Financial Report (CAFR) (**Attachment II)** and recommends that City Council receives and files the Memorandum on Internal Control and Required Communications (**Attachment III)** for the fiscal year ended June 30, 2017.

BACKGROUND

The City's independent external auditor, Maze and Associates, has completed its audit of the City's financial records for the fiscal year ended June 30, 2017. Maze was selected as the City's independent external audit firm in early 2011 after a thorough proposal review process. Maze and Associates has over thirty-one years of municipal auditing experience with more than 200 government agencies. In addition to the audited financial statements, the auditors have completed and provided the required *Memorandum on Internal Control and Required Communications*. The City's Comprehensive Annual Financial Report (CAFR) represents all funds of the City, including the General Fund, Water, Sewer, Airport, and all other enterprise and special revenue funds.

Auditing standards require auditors to formally communicate the results directly to the agency's governing body. The purpose being to establish direct and effective two-way communication with the Council and staff, to convey audit matters, the scope of work, difficulties, adjustments to financial statements, or any possible disagreements with management.

DISCUSSION

Comprehensive Annual Financial Report – Staff is pleased to report that, as in previous years, the auditor's opinion on the financial statements for fiscal year 2017 is without exception and is unmodified (formerly referred to as "unqualified"). That is, the auditor's report is not restricted (modified) in any manner, nor does it take exception with any of the information contained in the City's financial statements. While a modification (known before as a qualification) or exception is not necessarily detrimental, the ability to report that the City's financial statements continue to earn a "clean opinion" is a positive statement about the City's financial management and oversight.

Staff has submitted the fiscal year 2017 CAFR to the Government Finance Officers Association (GFOA) award program, which is a prestigious national award recognizing conformance with the highest standards for preparation of local government financial reports. The City of Hayward has received this award for the last thirty consecutive years.

Communication Letters from Auditors – The *Required Communications* letter is intended to identify any communication issues and present new accounting standards pronouncements that may affect the audit. The auditor did not report any difficulties in performing the audit or any disagreements with management.

The second letter presented to management is the *Memorandum on Internal Control.* This letter has two major objectives: (1) to advise the governing body or City Council of any significant deficiencies or material weaknesses in the City's systems of internal financial controls; and (2) to communicate to the Council any opportunities for improved controls or efficiencies that the auditors noted during their audit. This letter may also advise the Council of upcoming accounting regulations, which may affect the City's financial records. Staff's responses to the auditor's comments and recommendations are noted in the Letter.

<u>FY 2017 Finding</u>

There were no significant audit findings.

<u>FY 2016 Finding</u>

As part of the audit protocol, the auditor includes findings from the previous fiscal year (fiscal year 2016) to allow for a final management response and, if cleared, to confirm that the findings are no longer valid. Of the item noted *(2016-01) Access to Vendor and Employee Databases, t*he audit noted that two employees who processed payroll also had access to the employee database. In addition, there were several employees, who were not responsible for processing payroll or disbursements, that had access to the employee or vendor database. The City agreed that this condition existed at the time of the interim audit. In the months between the interim and final phases of the audit, the City changed access for many of the employees noted during audit testing. In the area where exceptions remained, specifically in the payroll area, additional controls have been implemented to detect any errors that could cause a misstatement in the affected areas.

STRATEGIC INITIATIVES

This agenda item is a routine operational item that does not relate to any of the Strategic Initiatives.

FISCAL IMPACT

There is no direct fiscal impact resulting from the approval of the annual audit.

PUBLIC CONTACT

On September 20, 2017, Maze & Associates presented to the Council Budget and Finance Committee an overview of the fiscal year 2017 audit process and the role of the external auditor. On November 16, 2016, staff presented a preliminary, unaudited fiscal year 2016 General Fund summary to the Council Budget and Finance Committee.

NEXT STEPS

The FY 2017 CAFR and accompanying documents will be presented to City Council on January 23, 2018 for adoption.

Prepared by and Recommended by: Dustin Claussen, Director of Finance

Approved by:

Kelly McAdoo, City Manager