



DATE: December 5, 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, 2018 and of the Memorandum on Internal Control and Required Communications

RECOMMENDATION

That the Committee receives the Comprehensive Annual Financial Report (CAFR) and recommends that City Council accepts and files the Memorandum on Internal Control and Required Communications for the fiscal year ended June 30, 2018. The reports will be made available prior to the meeting.

SUMMARY

This report provides information regarding the FY 2018 Comprehensive Annual Financial Report and the Memorandum on Internal Control and Required Communications. Staff is pleased that, as in years past, there were no significant findings. 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.

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, 2018. 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-two 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 2018 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 plans to submit the fiscal year 2018 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-one 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.

FY 2018 Finding

There were no significant audit findings.

FY 2017 Finding

There were no significant audit findings.

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 19, 2018, Maze & Associates presented to the Council Budget and Finance Committee an overview of the fiscal year 2018 audit process and the role of the external auditor.

NEXT STEPS

The FY 2018 CAFR and accompanying documents will be presented to City Council on February 5, 2019 for adoption.

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

Approved by:



Kelly McAdoo, City Manager