



DATE: January 28, 2020

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Adopt a Resolution Accepting the Comprehensive Annual Financial Report for the Year Ended June 30, 2019; and the Memorandum on Internal Control and Required Communications

RECOMMENDATION

That the Council adopts a Resolution (Attachment II) to receive and file the City's Comprehensive Annual Financial Report (CAFR) (Attachment III) and the Memorandum on Internal Control and Required Communications (Attachment IV) for the fiscal year ended June 30, 2019.

SUMMARY

Each year, the City conducts an independent financial audit, which is performed by an external contractor. Auditing standards require auditors to formally communicate the results directly to the agency's governing body; to establish direct and effective two-way communication with Council and staff, convey audit matters, the scope of work, difficulties encountered, adjustments to financial statements, or any possible disagreements with management. As in previous years, the auditor's opinion on the City's financial statements for fiscal year 2019 is without exception and is unmodified. There were no significant findings with respect to either the City's FY2018 financial statements or the FY2019 statements.

BACKGROUND

The City's independent external auditor, Maze and Associates, has completed its audit of the City's financial statements for the fiscal year ended June 30, 2019. 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, all other enterprise, special revenue, and capital funds.

Auditing standards require auditors to formally communicate the results directly to the agency's governing body, to establish direct and effective two-way communication with

Council and staff, convey audit matters, the scope of work, difficulties encountered, 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 2019 is without exception and is unmodified. 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 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.

An electronic copy of the CAFR can be found at <https://www.hayward-ca.gov/sites/default/files/pdf/191230-annual-cafr.pdf>

Staff has submitted the fiscal year 2019 CAFR to the Government Finance Officers Association (GFOA) award program, a 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-three 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 2019 Finding

There were no significant audit findings.

FY 2018 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 October 2, 2019, Maze & Associates presented to the Council Budget and Finance Committee an overview of the fiscal year 2019 audit process and the role of the external auditor. Staff presented the final audit findings and the CAFR to the Council Budget and Finance Committee on December 4, 2019. The Committee recommended that staff present the documents to the full Council for their approval.

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

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is written over a horizontal line.

Kelly McAdoo, City Manager