



REPORT TO CITY COUNCIL

DATE: DECEMBER 14, 2016

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: GREG RAMIREZ, CITY MANAGER 

BY: CHRISTY PINUELAS, DIRECTOR OF FINANCE 

SUBJECT: RECEIVE AND FILE THE CITY OF AGOURA HILLS COMPREHENSIVE ANNUAL FINANCIAL REPORT AND THE AGOURA HILLS RECREATION AND EVENT CENTER AGREED UPON PROCEDURES REVIEW FOR THE YEAR ENDED JUNE 30, 2016

The citywide annual audit was performed by Lance, Soll & Lunghard, LLP, Certified Public Accountants, for the FY 2015-16. Additionally, this year, the auditors performed a review of cash procedures at the Agoura Hills Recreation and Event Center. All reports and letters have been attached for your review.

The Finance Subcommittee met prior to the meeting to review the information with the auditors. The reports are presented to the City Council as a receive and file item and no further action is required.

RECOMMENDATION

It is recommended the City Council receive and file the 2015-16 Comprehensive Annual Financial Report.

Attachment: 2015-16 Comprehensive Annual Financial Report
Agoura Hills Recreation and Event Center Agreed Upon Procedures Review

Comprehensive Annual Financial Report

*(This document is available for review in the
Office of the City Clerk
30001 Ladyface Court, Agoura Hills, CA)*

CITY OF
AGOURA HILLS, CALIFORNIA



COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

www.ci.agoura-hills.ca.us



CPAs AND ADVISORS

November 28, 2016

To the Honorable Mayor and Members of the City Council
City of Agoura Hills, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Agoura Hills (the City) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 23, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2015-2016.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the Net Pension Liability and Other Post-Employment Benefits Liability is based on actuarial standards utilized in the Governmental Accounting Standards Board Statements and provided by the actuary. We evaluated the key factors and assumptions used to develop the Net Pension Liability and Other Post-Employment Benefits Liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.





CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Agoura Hills, California

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, we detected misstatements as a result of audit procedures which were material, and were subsequently corrected by management. The details of these misstatements are described in a separate letter dated November 28, 2016.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 28, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management discussion and analysis, budgetary comparison schedule for the General Fund, Housing Successor Special Revenue Fund and Other Grants Fund, Schedule of Funding Progress-Other Post Retirement Health Care Benefits, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Agoura Hills, California

We were engaged to report on combining statements, individual fund statements, and schedules which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Introductory and the Statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

New Auditing Standard No. 130

This new auditing standard is effective for financial periods ending on or after December 15, 2016; for most California municipalities it is effective for the period July 1, 2016 through June 30, 2017 and future periods thereafter. The standard allows CPA firms to issue an opinion on the financial statements' conformity with generally accepted accounting principles, as well as an opinion on the operating effectiveness of internal controls over financial reporting through an integrated audit. This standard does not change the objectives of a financial statement audit, it only enhances the value and scope of a financial statement audit and increases the level of assurance provided by CPA firms on financial controls. Municipalities should look to perform an integrated audit for more assurance on the operating effectiveness of internal controls over financial reporting.

New Accounting Standards

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2015-2016 audit:

GASB Statement No. 72, Fair Value Measurement and Application.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in the following fiscal year audit and should be reviewed for proper implementation by management:

Fiscal year 2016-2017

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

GASB Statement No. 77, Tax Abatement Disclosures.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Agoura Hills, California

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.

GASB Statement No. 80, Blending Requirements for Certain Component Units-an Amendment of GASB Statement No. 14.

GASB Statement No. 82, Pension Issues, an Amendment of GASB Statement Nos. 67, 68, and 73.

Fiscal year 2017-2018

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

GASB Statement No. 81, Irrevocable Split Interest Agreements.

Restriction on Use

This information is intended solely for the use of Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lance, Solt & Lughard, LLP".

Brea, California



CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Agoura Hills, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Agoura Hills, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control over Financial Reporting

In planning and performing our 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 our opinions on the financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be material weaknesses:

Finding 2016-001: Agency Accruals

During our search for unrecorded liabilities, we noted an exception in which an invoice relating to the Agency Fund for tourism fees from April-June 2016 was not recorded as a payable in the proper accounting period. Proper cutoffs are critical for the accuracy of the accrual basis accounting of the fiduciary fund. The City has provided the entry to properly correct and accrue this invoice of which the net effect change to payable and receivable is \$107,712.





CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
City of Agoura Hills, California

Finding 2016-002: Measure R Grant Revenue

During our audit, we noted a receipt of \$2,306,679 recorded in the incorrect period based on the City's revenue recognition policy. The Measure R Grant receipt should have been considered unavailable by the City in the current year as it was collected in excess of 60 days after June 30, 2016.

City's Response: Staff has updated procedures to look for revenue accruals. We will implement the change during the 16/17 fiscal year.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lance, Solt & Loughard, LLP".

Brea, California
November 28, 2016

CITY OF AGOURA HILLS

**Independent Accountant's Report on Agreed-Upon
Procedures on Revenue Controls of the Recreation Center**

For Fiscal Year Ended June 30, 2016



CPAs AND ADVISORS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
City of Agoura Hills' Recreation Center
Agoura Hills, California

We have performed the procedures enumerated below which were agreed to by the City of Agoura Hills, solely to assist you in assessing the revenue controls of the City of Agoura Hills' Recreation Center for the period July 1, 2015 to June 30, 2016. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

In addition to performing the following agreed upon procedures, we have incorporated the key goals for effective and efficient internal controls recommended by the Committee of Sponsoring Organization ("COSO") framework. This framework consists of five integrated components:

Control Environment – The control environment is the set of standards, process, and structures, established by the Board and senior management that provide the basis for carrying out the internal controls across the Organization.

Risk Assessment – Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. The risk assessment forms the basis for determining how risks will be managed.

Control Activities – Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

Information and Communication – Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Internal communication is the means by which information is disseminated throughout the Organization, flowing up, down, and across the entity. It enables personnel to receive clear messages from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

Monitoring Activities – Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluation, built into business process at different levels of the entity, provide timely information. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and the Board of Directors.





CPAs AND ADVISORS

City of Agoura Hills' Recreation Center
Agoura Hills, California

These components will be referenced to the procedures performed, and the results obtained from the performance thereof were as follows:

Revenue Control – Agoura Hills' Recreation Center

1. **Procedure Performed:** We reviewed the Recreation Center's accounting policies and procedures and interviewed management and staff in order to obtain an understanding of the internal controls over the processing of cash receipts, invoicing and safeguarding of cash at the Recreation Center. We identified how the Recreation Center bills customers, tracks accruals, and determine if proper safeguards were in place for the maintenance of cash. (*Control Environment*)

Observation 1: Per the Recreation Center's 'Cash Handling Policies and Procedures,' each of the two cash drawers at the front desk are to be left at \$100 each at the end of the day and taken up to the vault to lock up for the night. However per observation and inquiry with staff, cash drawers are actually left at \$50 each and kept locked at the front desks, not in vaults.

Recommendation:

We recommend that the Recreation Center properly follow written procedures. If policies and procedures are outdated or are deemed not required as an adequate control, these should be updated prior to change in the process itself. This would provide clear internal communication by staff and senior management that the change to the process is clearly understood by all parties involved in the internal control process.

Observation 2: There is no defined process as to the responsibility of invoicing for facility reservations to ensure that all receivables are properly accounted for and all payments are received. While the Finance Department recently began reconciling the excel spreadsheets maintained by the Recreation Center to the City's Accounts Receivable ledger, not all receivables processed by the Recreation Center are reflected within Tyler Accounting Software, including but not limited to receivables from karate, tennis and fitness passes.

Recommendation:

We recommend that written procedures should be implemented to ensure that responsibilities for invoicing are properly assigned and understood, and to ensure consistency between departments. Proper segregation of duties is necessary to ensure that clerical errors do not remain unchecked and that revenue and related receivables are properly valued and classified.

Observation 3: There is no defined process for the treatment of voided transactions. As such, there are no processes to verify that all voids are appropriate and have supporting documentation. Additionally, there is no defined process as to the responsibility of monitoring close-out reports to ensure all voids are proper.

Recommendation:

We recommend that written procedures should be implemented to address the treatment of voided transactions within ActiveNet registration software to ensure all revenue is complete. Proper monitoring controls are necessary to ensure accuracy and to mitigate the risk of fraud.



CPAs AND ADVISORS

City of Agoura Hills' Recreation Center
Agoura Hills, California

Recommendation:

We recommend that the appropriate staff reconcile the Recreation Center's manual tracking spreadsheets to ActiveNet reports for facility reservations to ensure that all facility reservations are properly accounted for, that all deposits are properly classified, and to ensure that payments are received within the appropriate amount of time. We also recommend that written procedures be implemented to include such a process to ensure that ActiveNet is periodically reconciled to any manual spreadsheets that are ultimately used to record into the City's main accounting software.

General Recommendation:

We recommend a review of the identified control weaknesses to be performed for proper communication and corrective action. All internal controls processes should be monitored and reviewed on a continuous basis for effective and efficient internal control structure.

Client's Response:

The City has implemented recommendations for observations #2-9 and is in progress to implement the recommendation provided for observation # 1.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would be reported to the City.

This report is intended solely for the use of the City of Agoura Hills and is not intended to be, and should not be, used by anyone other than this specified party.

Lance, Soll & Loughard, LLP

Brea, California
November 14, 2016



CPAs AND ADVISORS

City of Agoura Hills' Recreation Center
Agoura Hills, California

2. **Procedure Performed:** Using our understanding of the Recreation Center's internal controls, we observed staff perform various daily processes in the Recreation Center to evaluate whether the proper controls are in place and being followed to ensure all relevant revenue is accurately recorded, properly supported and evidenced. (*Control Activities*)

Observation 4: While ActiveNet registration software provides for individual usernames and passwords, ActiveNet grants various staff access to manipulate fees and rates even after they have been programmed into the software by the appropriate office personnel. This increases the risk of unauthorized manipulation by Recreation Center staff by not limiting access or requiring supervisor approval for any changes made to fees and rates.

Recommendation:

We recommend that access to program and adjust fees and rates should be limited to one or two employees in supervisory or management roles. Proper segregation of duties are necessary to an entity's internal controls to mitigate the risk of fraud and misclassification of revenue.

Observation 5: Per discussion with staff, once registration for each program is closed and class rosters are finalized, customers are allowed to be added in manually only after all proper fees have been paid. However, headcounts are not being performed and reconciled to the registration lists to ensure all attendees are properly accounted for and have paid.

Recommendation:

We recommend that staff perform random headcounts of class sessions and reconcile them to registration lists to ensure all attendees are properly accounted for and have paid. Proper reconciliation of registration lists will assist in mitigating the risk of fraud and clerical error and will help ensure all revenue is complete.

Observation 6: Per discussion with staff and observation of the daily deposit process, we noted there is no verification of classification of account codes when ActiveNet reports are used to post revenue into Tyler Accounting Software. We also noted that monitoring is not being performed to verify account codes are correct.

Recommendation:

We recommend that the appropriate Finance staff review the Tyler account codes that are programmed into ActiveNet to ensure proper classification. Additionally, access to adjust account codes in ActiveNet should be restricted to one or two employees in supervisory or management positions. We also recommend that budget-to-actual revenue and expense reports should be reviewed periodically as a monitoring control to ensure all revenue is reported correctly for each revenue source.

Observation 7: Per discussion with Recreation Center staff and observation of Event Center processes, we noted that while ActiveNet is used to process each facility reservation activity, it is not being used as the main tool for tracking deposits and receivables. Instead, the Recreation Center uses manual spreadsheets to track this activity, which increases the risk of clerical error. ActiveNet has the capability to produce Calendar reports for all registered reservations, however the Recreation Center does not utilize reports in conjunction with the Excel spreadsheets maintained by the Recreation Center and Finance Department.