



## Agenda Statement

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**Title:** Approval of the 2016 Financial Audit

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**Attachments:** 1. Audit Wrap Up.pdf, 2. Basic Financial Statements.pdf, 3. Federal and State Single Audit.pdf, 4. Corrective Action Plan.pdf

Date	Ver.	Action By	Action	Result
9/19/2017	1	City Council		

### **ITEM TITLE:**

Approval of the 2016 Financial Audit

**SUBMITTED BY:** Brian Carlson, Finance Director

### **FISCAL NOTES:**

Expenditure Required: N/A  
Unencumbered Balance: N/A  
Funding Source: N/A

### **RECOMMENDATION:**

Approve the 2016 Financial Audit

### **SUMMARY STATEMENT:**

The attached *Basic Financial Statements*, *Federal and State Single Audit*, and *Audit Wrap-up* comprise final deliverables for the 2016 third-party financial audit. Following Council approval, staff will make numerous filings, due 9/30/2017, to satisfy state statutes and bond covenants.

For the October 3<sup>rd</sup> Council agenda, Finance staff will include both the June 30 financial summary reflecting audited year-end fund balances, and a fund balance review and analysis that will provide context for the upcoming Council budget work sessions.

### **BACKGROUND:**

This is the fourth year of the City's five-year contract with BDO (three years plus two one-year

extensions). This year's audit included two weeks of on-site work in Valdez, and regular status meetings with the Audit Committee, including a "kick-off" meeting with staff and the Audit Committee, arrival/exit meetings each week and a post-audit meeting.

### **ANALYSIS:**

The 2016 Audit contains two findings:

1. **Significant Deficiency**, defined as *a deficiency or 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.*

This item pertains to invoices booked in 2017 for products or services procured in 2016. (see: **Audit Wrap Up**, page 7). This was the result of newly-hired staff being unfamiliar with year-end invoicing conventions.

2. **Material Weakness**, defined as *a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, detected, nor corrected on a timely basis.*

This item pertains to an error in posting of the 2016 fire truck purchase.

The findings are addressed in the attached **Corrective Action Plan** drafted by staff, which proposes improvements to the method of quarterly internal financial statements review, as well as increased communications to City departments regarding year-end procurement and invoicing. Staff does not anticipate that there will be recurring findings, and feels that departmental and citywide operations will be improved upon implementation of the plan.

### **CONCLUSION:**

The relatively late presentation of documents to Council in no way reflects the timeliness of Contractor deliverables, which were presented to staff for initial review in early June. Staff is satisfied with the performance of this contract, and will negotiate for continued work on the 2017 audit, before putting audit services out to bid again in 2018.

### **ATTACHMENTS (4):**

**2016 Audit Wrap-Up**

**2016 Basic Financial Statements**

**2016 Federal and State Single Audit Report**

**Corrective Action Plan**