



Agenda Statement

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Title: Approval of the 2017 Financial Audit
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Attachments: 1. City of Valdez Wrap Up 17, 2. City of Valdez Final 17, 3. City of Valdez Single Audit 17

Date	Ver.	Action By	Action	Result
9/18/2018	1	City Council	approved	Pass

ITEM TITLE:

Approval of the 2017 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 2017 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 9/30/2018, to satisfy state statutes and bond covenants. **Representatives from BDO will join the 9/18 Council meeting by phone.**

For the October 2nd 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:

In 2017 the City engaged BDO for a new two-year contract at a set rate of \$82K per year. The City will publish an RFQ for audit services in late 2019. This year's audit included two weeks of on-site work in Valdez, and regular status meetings with the Audit Committee.

ANALYSIS:

The 2017 Audit contains three 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.

The City over-paid its 12/31 debt-service payment by \$309K. The invoice itself was incorrect, as it included the full debt-service payment, when a portion of that payment was defeased and paid from the escrow agent.

2. **Significant Deficiency** - Staff incorrectly classified non-capital expenses as *construction in progress*, thereby over-stating the latter by \$2.6MM.
3. **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 incorrect bookkeeping for health-plan charges incurred in one year but paid in a subsequent year. This resulted in a \$500K over-statement of the plans net position.

The findings are addressed in the **Corrective Action Plan** found in the *Single Audit* document. The plan is drafted by staff, and proposes improvements to the staff education and related bookkeeping procedures. 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 does not reflect the timeliness of Contractor deliverables. Staff is satisfied with the performance of this contract, which continues through calendar-2019 for the 2018 audit.

ATTACHMENTS (3):

2017 Audit Wrap-Up

2017 Basic Financial Statements

2017 Federal and State Single Audit Report