

**CITY OF COOS BAY CITY COUNCIL**  
**Agenda Staff Report**

MEETING DATE December 2, 2014	AGENDA ITEM NUMBER
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TO: Mayor Shoji and City Councilors

FROM: Susanne Baker, Finance Director  
Through: Rodger Craddock, City Manager

ISSUE: Acceptance of FYE 14 City Audit

**BACKGROUND:**

The City of Coos Bay engaged Pauly, Rogers and Co. to perform an external audit of the City of Coos Bay's FYE 14 financial statements. Pauly, Rogers and Co. is an independent external auditor and is directly responsible to the legislative body to express an opinion on the fairness of the presentation of the financial statements. Management is responsible for compliance with legal requirements, for maintaining adequate internal controls, and for conducting programs economically and efficiently. The auditor provides an opinion or presents findings on such matters.

Pauly, Rogers and Co. has issued an unqualified opinion that the Basic Financial Statements, Required Supplementary Information, Supplementary Information, and Schedule of Federal Awards all present fairly, in all material respects, the financial position of the governmental activities, business type-activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit (Urban Renewal Agency) as of June 30, 2014, and the results of its operations and the cash flows thereof, are in conformity with Generally Accepted Accounting Principles (GAAP).

What does unqualified opinion mean? An unqualified opinion means the City of Coos Bay has been given a "clean" opinion with no reservations. It is the independent auditor's judgment that the financial records and statements are fairly and appropriately presented, and in accordance with GAAP. An unqualified opinion is the most common type of auditor's report and the desired result.

Ms. Tara Kamp, from Pauly, Rogers and Co., will present the City's Audit for FYE 14 and in compliance with Statement of Auditing Standards No. 114 (SAS 114), provide the Communication to the Governing Body SAS 114 Letter.

**ADVANTAGES:**

The audit process provides for full public disclosure and transparency in government.

**DISADVANTAGES:**

None.

**BUDGET:**

An unqualified opinion from the auditor affects the City's credit worthiness and bond rating. This opinion continues the City of Coos Bay's history of being under sound fiscal management and positions the City well for future financings.

**RELATED CITY GOAL:**

Finance: Ongoing Activities Aimed at Achieving Goal Priorities - Exercise fiscal responsibility and keep the City Council actively involved in monitoring the financial health of the City.

**RECOMMENDATION:**

Staff proposes the Council accept the FYE 14 audit.

smb

Attachments:  
FYE 14 Audit  
Communication to the Governing Body SAS 114 Letter

**CITY OF COOS BAY  
COOS COUNTY, OREGON**

**COMMUNICATION TO THE GOVERNING BODY  
FOR THE YEAR ENDED JUNE 30, 2014**



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November 10, 2014

To the City Council  
City of Coos Bay  
Coos County, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Coos Bay for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### **Purpose of the Audit**

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Planned Scope and Timing of the Audit**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas to be tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. We also communicated any internal control related matters that are required to be communicated under professional standards.

### **Results of Audit**

1. Audit opinion letter - an unmodified opinion on the financial statements has been issued. This means we have given a “clean” opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment, except as noted on page 103 of the financial report.
3. Management letter – No management letter was issued.

### **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 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014, except for the implementation of GASB 65 – *Items Previously Reported as Assets and Liabilities*. We noted no transactions entered into 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. The most sensitive estimates affecting the financial statements were Management’s estimate of Accounts Receivable and Capital Asset Depreciation, which is based on estimated collectability of receivables and useful lives of assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are 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 disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, taken as a whole. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

#### *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 auditors’ 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.

### *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 financial statements or a determination of the type of auditors’ 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 our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Supplementary Information*

With respect to the supplementary information accompanying the financial statements, 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.

### *Other Information*

With respect to the other information accompanying the financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited financial statements. Our results noted no material inconsistencies or misstatement of facts.

### **Other Matters – Future Accounting and Auditing Issues**

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accounts and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

#### **GASB 68**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics. This statement will impact the government-wide financial statements for most entities with net position being reduced by an actuarially determined amount. The implementation date for this statement is fiscal periods beginning after June 15, 2014.

### GASB 69

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. The implementation date for this statement is fiscal periods beginning after December 15, 2013 and earlier implementation is encouraged.

### GASB 71

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, addresses the reporting requirements related to amounts associated with contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which is required to be implemented in fiscal periods beginning after June 15, 2014.

## **Best Practices – Not Significant Deficiencies**

### 1. Governing Body Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (elected officials). This can be accomplished by asking specifically designed questions to senior staff, by reviewing financial statements and projections and by comparing financial results to pre-established benchmarks. While elected officials participate in the budget adoption process and receive staff prepared financial statements, these only partially fulfill the monitoring function.

We recommend that the City Council articulate their monitoring practices and record in the minutes when those activities occur.

Since monitoring activities, including benchmarking, are unique to each entity we are available to assist the City Council in establishing checklists, questions and benchmarks that are customized for your use.

### 2. Fidelity Insurance Coverage

In reviewing fidelity insurance coverage we noticed that the City often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the City Council examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

### 3. Segregation of Duties

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the

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City Council continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

4. Minimum Number of Appropriated Funds

We noted that the City has more than the legally required number of funds. According to NCGA Statement 1, Paragraph 4, "Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration." We recommend that the City consider closing funds that are not required to be in a separate fund. Both GFOA (Government Finance Officers Association) and GASB (Governmental Accounting Standards Board) encourage governments to use the minimum number of funds.

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

A handwritten signature in black ink that reads "Tara M. Kamp, CPA". The signature is written in a cursive, flowing style.

Tara M Kamp, CPA  
PAULY, ROGERS AND CO., P.C.