CITY OF COOS BAY CITY COUNCIL
Agenda Staff Report

MEETING DATE January 19, 2016	AGENDA ITEM NUMBER

TO: Mayor Shoji and City Councilors

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

ISSUE: Acceptance of FYE 15 City Audit

BACKGROUND:

The City of Coos Bay engaged Pauly, Rogers and Co. to perform an external audit of the FYE 15 financial statements. Pauly, Rogers and Co. is an independent external auditor and 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, maintaining adequate internal controls, and conducting programs economically and efficiently.

Pauly, Rogers and Co. has issued an unmodified opinion on the financial statements with no exceptions or issues requiring comment for the State minimum standards nor was there a management letter issued. An unmodified 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 unmodified 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 15 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 unmodified opinion affects the City's credit worthiness, bond rating, and continues the City's history of being under sound fiscal management and positions the City well for future financings.

RECOMMENDATION:

Staff proposes the Council accept the FYE 15 audit.

Attachments:
FYE 15 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, 2015

CERTIFIED PUBLIC ACCOUNTANTS
PAULY ROGERS AND CO PC

12700 SW 72nd Ave.
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Agenda Item #5

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December 11, 2015

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, 2015. 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.

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 2015, except for the implementation of GASB 68 - *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* and GASB 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* 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.

Emphasis of Matter – New Pension Reporting Requirements

During the 2014-2015 fiscal year a new accounting requirement went into effect called Government Accounting Standards Board Statement 68 - *Accounting and Financial Reporting for Pensions* as well as the provisions of GASB Statement No. 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date*. Every government in the United States was required to comply with these new accounting rules. In the past, governments have not recorded a liability for the amount of money owed to current and former employees for future retirement benefit payments that have already been earned by the employees. This new requirement made financial reports for governments more transparent and accurate by quantifying a debt that has always existed but not reported.

The new accounting standard created a method for calculating the entire amount of money owed to all current and former employees in the future, which will need to be included as a liability in the June 30, 2015 financial report. As a result, it was possible that some governments would have a lower, and possibly negative, financial position, or net worth as of the beginning of the fiscal year than what was reported in the prior year under old standards, as well as at the end of the current fiscal year. Some governments in an attempt to reduce rates paid to PERS elected to "fund" their future debt to PERS by borrowing money using "Pension Obligation Bonds" which was used by the state's actuaries, Milliman, to calculate the District's proportionate share of the overall state unfunded liability or asset. Due to the results of the valuation as of June 30, 2015 there was a state-wide asset that was proportionately allocated to each employer based on the actuarial study. This study did not take into account the results of the *Moro v. State of Oregon* decision by the Oregon Supreme Court in April of 2015.

The Statement of Net Position now has new accounts listed. The Net Pension Asset represents the District's proportionate share of the state-wide actuarially determined asset as of the measurement date. The Net Pension Related Deferrals include a combination of calculations made by the actuaries based on potential changes in assumptions and the difference between actual and expected returns on investments, as well as contributions made to PERS by the District subsequent to the date of the actuarial valuation which were not accounted for in the state-wide asset.

These new requirements do not change anything related to the budgets of the governments, do not require additional spending and have no bearing on the amount of money available to spend. Governments make payments to PERS each month based on a rate already calculated by an actuary, and this will not change as a result of the new pronouncements.

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 72
GASB issued Statement No. 72, Fair Value Measurement and Application, which prescribes how state and local governments should define and measure fair value. It also prescribes which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements. This standard is required to be implemented in fiscal year 2015-16.

IMPLICIT RATE SUBSIDY FOR OPEBs
In Oregon, an implicit rate subsidy is required for almost all entities, due to the fact that Oregon law requires that any retiree be allowed to buy-back into their former employer's health insurance plan. In the past, relatively small employers participating in a large, pooled health plan were sometimes exempt from having to account for an implicit rate subsidy due to a "community-rating" exception. In general, this exception applied when the claims experience of an individual employer would have virtually no impact on the premium being charged to that employer. The accounting standards that apply to OPEBs refer to the Actuarial Standards of Practice (ASOPs) in determining whether a community-rated situation applied. However, the newly revised ASOP 6 virtually eliminated the concept of the community-rating exception. As a result, agencies participating in community-rated plans that had previously been exempt from reporting liabilities due to an implicit rate subsidy may now be required to do so. We recommend that Management contact an actuary to determine if an actuarial study is required.

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

3. 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.

Tara M Kamp, CPA

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PAULY, ROGERS AND CO., P.C.