



CITY OF WHEATLAND

CITY COUNCIL MEETING STAFF REPORT

December 10, 2019

SUBJECT: Fiscal Year 2019 Audited Financial Report

PREPARED BY: Susan Mahoney, Finance Director

Recommendation

Staff recommends the City Council receive and file the audited Annual Financial Report for the fiscal year ended June 30, 2019.

Background/Discussion

Each year, an audit of the City's financial statements is conducted by an independent auditor and the results are presented to the City Council. The audit for the fiscal year ended June 30, 2019 was conducted by Moss, Levy & Hartzheim CPAs. This is the second year this firm has audited the City.

The scope of the annual audit typically includes:

1. An evaluation by the auditor that the preparation of the financial statements by City staff fairly presents the financial position of the City.
 - *For fiscal year 2019, "It is the opinion of the auditors that the financial statements present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information."*
2. A separate audit called a Single Audit, required when the City receives over \$750,000 in federal funds.
 - *For fiscal year 2019, a Single Audit is not required.*
3. The Management Report and Auditor's Communication Letter (Attachment 2) comments on the City's system of internal controls and provides recommendations for improvements.
 - *The results of the auditor's tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of*

noncompliance or other matters that are required to be reported under Government Auditing Standards.

- *The auditor recommends that the City ensure that all impact fee studies are updated.*
- *The auditor noted "other matters" that require correction. Staff has implemented procedures to correct these matters.*

The Annual Financial Report for the Fiscal Year Ended June 30, 2019 (Attachment 1) includes a Management Discussion and Analysis (pages 7 through 15) which provides an overview of the City's financial activity.

The following are some key highlights reported in the financial report:

- The fund balance of the **General Fund** increased \$172,347 over the prior year.
- This is the second year that a **Statistical Section** has been added to the financial report (pages 97 through 116). It includes additional information about the City such as assessed value of property, top ten property tax-payers, top 25 sales tax producers, direct and overlapping tax rates, demographic and economic statistics, principal employers, etc.
- The unrestricted reserve in the Water Fund has increased \$97,095 over the prior year. Unrestricted reserves in the Water and Wastewater Funds are not sufficient to pay for future infrastructure improvements.

Alternatives

The Annual Financial Report is prepared by an independent auditor and is in conformity with Generally Accepted Accounting Principles. The alternative is to not accept the report.

Fiscal Impact

There is no fiscal impact associated with this item.

Attachments

1. Annual Financial Report for the fiscal year ended June 30, 2019
2. Management Report and Auditor's Communication

CITY OF WHEATLAND
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2019

CITY OF WHEATLAND
June 30, 2019

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MOSS, LEVY & HARTZHEIM LLP

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Members of the City Council
City of Wheatland
Wheatland, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wheatland (City), as of and for the fiscal year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 significant deficiencies or material weakness and therefore, significant deficiencies or material weakness may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit, we identified the deficiency presented in the current year recommendation section as Finding 2019-01 that we consider to be a significant deficiency in internal control. We identified several other observations that we consider to be other matters in the current year recommendation section as Findings 2019-02 to 2019-03.

The City's response to the findings identified in our audit is described in the current year recommendations section. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of communications with the members of the City Council as required by professional auditing standards. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the City Council, and others within the City, and are not intended to be, and should not be, used by anyone other than these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA
November 25, 2019



MOSS, LEVY & HARTZHEIM LLP

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November 25, 2019

Members of the City Council
City of Wheatland
Wheatland, California

We have audited the financial statements of the City of Wheatland (City) as of and for the fiscal year ended June 30, 2019. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, 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 July 15, 2019. 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 Note 1 of the notes to the basic financial statements. We noted no transactions entered into by the City during the fiscal 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 has made estimates of the estimated historical cost and useful lives of capital assets, estimated allowances for doubtful accounts, and estimates regarding contingent liabilities.. These estimates are based on historical data and industry guidelines for capital assets, historical collection data, and advice from legal counsel, respectively. We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

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.

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. We proposed adjusting journal entries for fund balance, long term debt, and unearned revenue. All entries proposed were accepted by 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 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 25, 2019.

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 the Management's Discussion and Analysis, Schedule of Revenues, Expenses, and Changes in Fund Balances – Budget and Actual which are required supplementary information (RSI) that supplement 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.

Other Matters (Continued)

We were engaged to report on the Schedule of Revenues, Expenses, and Changes in Fund Balances -- Budget and Actual, combining statements for nonmajor governmental funds, combining statements for internal service funds, combining statements for agency funds and Statistical information which accompanies the financial statements but is 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.

Restriction on Use

This information is intended solely for the use of the City 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,

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies

2019-01 Finding – Impact fees studies not updated in a timely manner:

During our review of impact fees it was noted that multiple development impact fees were not updated and published in a timely manner. The California Government Code requires that all impact fee studies be updated every 5 years and that fees retained for more than 5 years without a supporting fee studies be returned to the original user.

Effect:

When impact fee studies are not updated in a timely manner, it is impossible for the City to justify the original collection of said fees because it is impossible to determine if impact fees were utilized for the original intended purpose or still being held for future projects in accordance with the California Government Code.

Recommendation:

We recommend that the City ensure that that all impact fees studies are updated in a timely manner to avoid noncompliance with the California Government Code.

Management's Response:

The City is currently in the process of updating its impact fee studies.

Other Matters

2019-02 Finding – Building permits were not calculated accurately:

During the test of cash receipts, it was noted that three out of 10 building permits were not calculated properly.

Effect:

The City is not charging users based on the council approved fee schedule.

Recommendation:

We recommend that the City charges users based on the council approved fee schedule.

Management's Response:

The City has implemented procedures to correctly calculate all building permit valuations.

2019-03 Finding – Lack of control over payroll personnel files

During the test of payroll, it was noted that two out of 10 tested I-9 forms could not be located.

Effect:

When personnel documents are not obtained or retain in an appropriate manner, there is a lack of internal control over payroll personnel files that can result in incompliance with Federal, State and local laws and regulations.

Recommendation:

We recommend that the City ensure that all required personnel files be obtained and retain in an appropriate manner.

Management's Response:

The City has implemented an employee onboarding process to maintain compliance with all laws and regulations.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Significant Deficiencies

2018-01 Finding – Impact fees studies not updated in a timely manner:

During our review of impact fees it was noted that multiple development impact fees were not updated and published in a timely manner. The California Government Code requires that all impact fee studies be updated every 5 years and that fees retained for more than 5 years without a supporting fee studies be returned to the original user.

Effect:

When impact fee studies are not updated in a timely manner, it is impossible for the City to justify the original collection of said fees because it is impossible to determine if impact fees were utilized for the original intended purpose or still being held for future projects in accordance with the California Government Code.

Recommendation:

We recommend that the City ensure that that all impact fees studies are updated in a timely manner to avoid noncompliance with the California Government Code.

Status:

Not implemented, see Finding 2019-1.

Other Matters

2018-02 Finding – Building permits were not calculated accurately:

During the test of cash receipts, it was noted that three out of 10 building permits were not calculated properly. The fee schedule states that the permits should be calculated based on valuations which are to be rounded to the next thousand, the City did not round the valuations, undercharging users.

Effect:

The City is not charging users based on the council approved fee schedule.

Recommendation:

We recommend that the City charges users based on the council approved fee schedule.

Status:

Not implemented, see Finding 2019-2.

2018-03 Finding – Seismic fee was not calculated accurately:

During the test of cash receipts, it was noted that one out of 10 building permits did not have a properly calculated seismic fee.

Effect:

The City is not charging users based on a California state-imposed fee schedule.

Recommendation:

We recommend that the City charges users based on the California state-imposed fee schedule.

Status:

Implemented.

2018-04 Finding – Deposits are not made in a timely manner:

During the test of cash receipts, it was noted that out of the 10 deposits reviewed, 2 contained cash receipts that took more than 7 days to be deposited.

Effect:

When deposits of cash receipts are not made in a timely manner, the chances of misappropriations or misallocation increase.

Recommendation:

We recommend that the City implement policies and procedures to ensure that deposits of cash receipts happen within at most 7 days.

Status:

Implemented.

2018-05 Finding – Lack of control over payroll personnel files

During the test of payroll, it was noted that six I-9 forms had not be signed by the City, signifying review and approval of the form, and 1 personnel action form for the tested pay period was missing.

Effect:

When personnel documents are not obtained or retain in an appropriate manner, there is a lack of internal control over payroll personnel files that can result in incompliance with Federal, State and local laws and regulations.

Recommendation:

We recommend that the City ensure that all required personnel files be obtained and retain in an appropriate manner.

Status:

Not implemented, see Finding 2019-3.