

**MOORPARK CITY COUNCIL  
AGENDA REPORT**

**TO:** The Honorable City Council  
**FROM:** Ron Ahlers, Finance Director *RA*  
**DATE:** March 24, 2009 (CC Meeting of April 1, 2009)  
**SUBJECT:** Consider Annual Financial Statements for Fiscal Year Ended June 30, 2008

**SUMMARY**

The Comprehensive Annual Financial Report {CAFR}, Management Letter, Single Audit Report, Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets and the Independent Auditor's memo regarding the audit process of the City of Moorpark for June 30, 2008 are hereby submitted for Council approval.

**BACKGROUND**

The City is required to conduct an annual independent audit of its financial statements. The audit firm of Teaman, Ramirez & Smith, Inc. Certified Public Accountants {TRS} conducted the annual audit and with staff assistance prepared the required financial statements. For the fiscal year ended June 30, 2008, the City received an unqualified opinion. The City continued to comply with GASB 34 which established new financial reporting guidelines including infrastructure reporting. In addition, the City presented the statistical section with detail information in compliance with GASB No. 44 requirements.

**DISCUSSION**

**CAFR**

Attached for your approval are the annual financial statements for the year ended June 30, 2008 for the City of Moorpark. The CAFR has been formatted to meet the requirements for the California Society of Municipal Finance Officers' (CSMFO) CAFR award program. The City has received the "Outstanding Financial Reporting" Certificate of Award for the last three fiscal years. This current year we did not submit for this award since the CAFR was completed after the deadline for submission. The financial statements are comprehensive and include all of the fund types in the City.

The City Council engaged an independent certified public accounting firm, TRS, to perform the annual audit of the City of Moorpark and its component units. The results of the audit performed are formally published in the CAFR. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

Additionally, the CAFR is sent out to numerous government agencies and financial institutions in order to comply with various reporting, financial and subsequent bond disclosure requirements. The overall financial picture of the City is presented, in accordance to the Governmental Accounting Standards Board (GASB) pronouncements, on a Government-wide basis. This is designed to provide readers with a broad overview of the City's finances similar to a private-sector business. These statements show the June 30, 2008 fiscal year balances and overall results of operations for the period then ended, for all City funds, including the Redevelopment Agency. The statements are as follows:

*Management's Discussion and Analysis (MD & A).* This discussion and analysis starts the financial section of the CAFR and serves as an executive summary. GAAP requires that management provide this narrative introduction, overview and analysis to accompany the basic financial statements. The *letter of transmittal*, which precedes the MD & A in the introductory section, is designed to compliment the MD & A and should be read in conjunction with it. The MD & A is found immediately following the report from the independent auditors. The report from the auditors contains an opinion letter in which an entity can receive basically 3 opinions; unqualified, qualified, and adverse. An unqualified opinion from the auditors is the highest given. For the 2007-08 fiscal year audit, the City of Moorpark, again, received an unqualified opinion.

*The Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets {page 14} may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

*The Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cashflows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and sick leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, public safety, public services, parks and recreation and interest on long-term debt.

Following the government-wide statements in the CAFR, the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balances* are presented for all major and non-major governmental funds. A major fund is one of material significance and is determined through prescribed calculations. The General Fund is always considered a major fund by definition. Other governmental funds can be

declared major funds by management due to other factors, even if they fail the qualifications resulting from the calculations. Non-major funds are all combined together for presentation. Reconciliations between these governmental statements and the government-wide statements are also presented.

*The Statement of Fiduciary Assets and Liabilities, Agency Funds* is located on page 22.

All of these statements are followed by the *Notes to the Financial Statements*.

*The Required Supplementary Information* begins at page 52 and details the budget to actual comparisons for all the major funds of the City, beginning with the General Fund.

The next section of the CAFR provides statements for each individual non-major governmental fund. The governmental funds are presented in their various categories: special revenue funds and capital project funds. Additionally, there is the budget to actual comparisons for each non-major fund.

The last section of the CAFR, which is unaudited, contains statistical data about the City of Moorpark. All of the tables and schedules present numerous facts about the City, many for the last 10 years. The statistical facts include population figures, principal taxpayers, and assessed valuations of taxable property to name a few.

The CAFR was provided previously to the City Council and can be found on the City's website: <http://ci.moorpark.ca.us>

#### General Fund Financial Analysis

For fiscal year June 30, 2008, the General Fund unreserved fund balance totaled \$3.6 million which equates to approximately 30% of operating expenses. Total General Fund expenditures and transfers out to other funds exceeded total revenues and transfers in from other funds by \$20.7 million. The City transferred out \$21.5 million to the Special Projects Fund this past year. Without this transfer the General Fund would have had a positive change in fund balance of approximately \$800,000.

#### Management Letter and Single Audit Report

As part of the annual audit, the independent auditors are also required to report to management regarding internal controls and the City's compliance with federal grants. The independent auditors issue two reports to satisfy this requirement: Management Letter and Single Audit Report.

#### Management Letter

It is standard practice for the independent auditors to note recommendations for improvement in the Management Letter.

There are various levels of observations that are reported to management. The first and most serious type of observation is known as a "material weakness". A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The independent auditors reported no "material weakness" for the City.

The second level of deficiency is a "significant deficiency". A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. The independent auditors reported no "significant deficiency" for the City.

The third and final category of observations identified by the independent auditors is that of "control deficiency". A control deficiency 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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively. These comments are intended to improve internal controls or result in other operating efficiencies. The independent auditors reported four such observations: (1) Recreation Revenues; (2) State and County Revenues; (3) Purchasing Policy; (4) Fraud Prevention and Detection Program. During the course of the coming months the City will be implementing the changes necessary to address these observations.

#### Single Audit

The City was required to conduct a single audit this year because it met the \$500,000 federal grant expenditure threshold. The Single Audit is specifically designed to meet the needs of all federal grantor agencies from which the City receives funds. The independent auditors did not note any findings either on financial statements or questioned costs for Federal Awards for the fiscal year ended June 30, 2008.

The Single Audit report was provided previously to the City Council and can be found on the City's website: <http://ci.moorpark.ca.us>

*Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets*

The independent auditors noted no findings for the City's calculations with regards to the appropriations limit for the fiscal year ended June 30, 2008.

*Independent Auditor's memo regarding the audit process*

The independent auditors noted no findings for the audit process for the fiscal year ended June 30, 2008.

**STAFF RECOMMENDATION**      **(Roll Call Vote)**

Accept the Comprehensive Annual Financial Report (CAFR), Management Letter, Single Audit Report, Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets, and the Independent Auditor's memo regarding the audit process and receive and file this report.

Attachments:

1. Management Letter
2. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
3. Independent Auditor's memo regarding the audit process

# **ATTACHMENT 1**

## **MANAGEMENT LETTER**

December 16, 2008

Ron Ahlers, Finance Director  
City of Moorpark  
799 Moorpark Avenue  
Moorpark, CA 93021

Dear Mr. Ahlers:

We have audited the financial statements of the City of Moorpark (the "City") as of and for the year ended June 30, 2008. In planning and performing our audit of the financial statements of the City for the year ended June 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We noted no matters involving the internal control and its operations that we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted items of less significance which are presented for your consideration.

This letter by its very nature is critical and does not highlight the many positive features of the City's internal controls. These comments and recommendations are intended to improve the internal controls or result in other operating efficiencies and are summarized as follows:

(1)  
**Recreation Revenues**

The Recreation Center receives revenues from the various programs operated at the Center. They utilize an automated system to track the various activities throughout the year. The Department submits the revenues and cash receipt reports to the Finance Department on a regular basis. As in the prior year's audit, we noted that there is no independent verification, or monitoring of the recreation deposits. Although the Finance Department records the revenues submitted by the Recreation Department and reconciles the deposits to the reports that are provided, there is no verification that all incoming receipts for recreation activities were, in fact, submitted to the Finance Department. For example, the automated system assigns receipt numbers to each transaction at the Center. The receipt numbers are provided on the cash receipt reports submitted to Finance, but there is no independent monitoring of these receipt numbers (numerical sequence).

Because of the significance of the recreation receipts each year, and in order to strengthen controls over cash receipts, we recommend the City establish procedures to provide for independent verification (or internal audit) of the recreation receipts. For example, the

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Finance Department could perform periodic "audits" to compare the information recorded in the Recreation Department's automated system with the revenues that were submitted to Finance, and account for the numerical sequence of receipts submitted to Finance. This would help to verify that all program revenues have been submitted and deposited throughout each fiscal year.

(2)

**State and County Revenues**

The Finance Department maintains separate files for the various State and County revenues. These files include copies of the remittance advices that accompanied the various payments, while the original documents are included with other receipts in the monthly cash receipts folders. However, except for a few of these files, it appears they have not been updated for quite some time. Also, the Finance Department does not prepare any schedules or analysis for these State and County revenues to help verify the total revenues in the general ledger.

In order to ensure the various State and County revenues are properly posted and accrued each fiscal year, we recommend that the Finance Department keep the State and County revenue files current. These files can be used to facilitate analysis and reconciliations. We recommend the Finance Department perform periodic analysis and reconciliation for these revenues in a timely manner. The revenues recorded in the general ledger should be compared to the analysis each fiscal year.

(3)

**Purchasing Policy**

In gaining understanding of the purchasing process, we noted the City's Municipal Code only give guidance for purchases of supplies and equipment, and refers to the Public Contract Code for Public Project procurement policies. The Municipal Code states that the City Council will establish, by resolution, procedures governing the purchase of contractual or professional services, but no such resolution has been developed or adopted. The Finance Department has an informal procedure manual that includes purchasing policies, but it is not very clear or consistent regarding the procurement of professional services. Also, other departments do not necessary have a copy of this manual to refer to when making purchases.

In addition, the Municipal Code provides thresholds and procedures regarding formal and informal bids in the purchasing process. Purchases of supplies and equipment of \$1,000 to \$15,000 go through the informal bid process while those over \$15,000 go through the formal bid process. During our testing of certain purchases, we noted that, for three purchases of equipment over the \$15,000 threshold, no formal bid documentation could be provided to us. It appears two of the purchases were made in accordance with the informal bid process, which requires obtaining at least three verbal or written quotations, and documenting the quotes (if verbal) in the requisition, or attaching to the requisition (if written). No documentation regarding bids was provided to us for the third purchase. We

also noted that several other purchases of supplies and equipment, which appeared to require informal bids, did not have any informal bid documentation.

To strengthen internal controls over purchasing and procurements, we recommend that the City revisit its purchasing policies, along with the informal Finance manual, and determine what changes can be made to clarify the policies regarding procurement of professional services and help ensure purchasing policies are consistent throughout the City. We also recommend that the City take necessary steps to ensure that adequate bidding documentation is maintained on file for all purchases subject to these requirements. For purchases that are exempt from the bidding requirements, documentation should be maintained explaining the reason for exemption. The City's procedures should require verification of adequate bid documentation prior to purchase approval.

(4)

**Fraud Prevention and Detection Program**

As noted in the prior year, Management of the City is responsible for designing and implementing systems and procedures for the prevention and detection of fraud, and for ensuring a culture and environment that promotes honesty and ethical behavior. Fraud can range from minor employee theft and unproductive behavior to misappropriation of assets and fraudulent financial reporting.

The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. However, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties. Therefore, it is important to place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals that they should not commit fraud because of the likelihood of detection and punishment. Moreover, prevention and deterrence measures are much less costly than the time and expense required for fraud detection and investigation.

While the City has taken steps to address the risk of fraud in certain areas, such as segregation of duties and other internal controls, we recommend the City consider taking a more formal, proactive approach to fraud prevention and deterrence. This would involve establishing an ongoing program of formally identifying and measuring fraud risks, taking steps to mitigate identified risks, and implementing and monitoring any necessary preventive and deterrent measures.

For example, although the City provides training regarding ethics to management level employees, the City may want to establish a more formal training program for all employees regarding fraud. New employees should be trained at the time of hiring about the entity's values and its code of conduct. This training should explicitly cover expectations of all employees regarding (1) their duty to communicate certain matters; (2) a list of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and (3) information on how to communicate those matters.

In addition to the training at the time of hiring, employees should receive refresher training periodically thereafter.

As mentioned above, management needs to provide information to employees on how to communicate fraud related matters. Research has shown that the majority of fraud is detected by fellow employees, and not by outside auditors or internal controls. It is important for the City to establish and communicate to employees a reporting system that is appropriate for the City. The City should consider establishing a confidential reporting mechanism, which may include a combination of internal reporting and an anonymous tip hotline, not only for employees, but also for vendors and customers of the City.

In summary, the City has established controls over fraud in many areas and, based on our experience, has set an appropriate "tone at the top" regarding ethical behavior. However, the City should consider a more formal, proactive approach to preventing fraud. The above comments do not address all components of a strong antifraud program. Additional information can be provided to the City's management regarding this issue.

#### Summation

We would like to take this opportunity to express our appreciation for the assistance extended us during the course of our audit. If we can be of further assistance, or if you have any questions regarding our recommendations, please call our office. This letter is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,  
TEAMAN, RAMIREZ & SMITH, INC.

Greg W. Fankhanel  
Certified Public Accountant

# **ATTACHMENT 2**

**Independent Accountant's Report on  
Agreed-Upon Procedures Applied to  
Appropriations Limit Worksheets**

**INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES  
APPLIED TO APPROPRIATIONS LIMIT WORKSHEETS**

City Council  
City of Moorpark  
Moorpark, California

We have performed the procedures enumerated below to the accompanying Appropriations Limit worksheet of the City of Moorpark, California, for the year ended June 30, 2008. These procedures, which were agreed to by the City of Moorpark, California and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII B of the California Constitution*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City of Moorpark's management is responsible for the Appropriations Limit worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned documents to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit worksheet, we added last year's limit to total adjustments and agreed the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We agreed the current year information presented in the accompanying Appropriations Limit worksheet to the other documents referenced in #1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet to the prior year appropriations limit adopted by the City Council during the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriations limit for the base year, as defined by the League publication entitled *Article XIII B of the California Constitution*.

This report is intended solely for the use of the City Council and management of the City of Moorpark, California and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Teaman Ramirez & Smith*

December 16, 2008

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**CITY OF MOORPARK**  
**APPROPRIATIONS LIMIT COMPUTATION**  
2007 – 2008

	<u>2007 – 2008</u>
Per Capita Personal Income Change	4.42%
Population Change	
City Population Growth	1.05%
CPI Change Converted to a Ratio	1.0442
Population Change Converted to a Ratio	1.0105
Calculation of Growth Factor	1.0552
2006 – 2007 Appropriations Limit	<u>\$ 19,700,584</u>
2007 – 2008 Appropriations Limit (\$19,700,584 X 1.0552)	<u>\$ 20,788,056</u>

# **ATTACHMENT 3**

**Independent Auditor's memo  
regarding the audit process**

December 16, 2008

City Council  
City of Moorpark  
Moorpark, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Moorpark (the "City") for the year ended June 30, 2008 and have issued our report thereon dated December 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter dated December 5, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's 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. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated in our engagement letter dated December 5, 2008.

### 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 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending June 30, 2008. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimates of the useful lives for capital assets are based on the expectation that the capital assets will be of use to the City over the specified useful lives. We evaluated the key factors and assumptions used to develop the estimate in determining that they are reasonable in relation to the financial statements taken as whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of capital assets in Note 5 to the financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of prior period adjustments in Note 15 to the financial statements was to reclassify certain construction in progress activities and record pension-related debt activities from prior years which resulted in a decrease of \$3,257,840 to the beginning net assets of governmental activities.

#### *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. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Prior period adjustments were made for approximately \$1.8 million to reclassify certain costs which were recorded as construction in progress but should have been expensed. Also, there was a prior period adjustment for \$1,413,733 of pension-related debt for the City's "Side Fund" at CalPERS which was not recorded when CalPERS moved the City into a "Risk Pool" (Cost-Sharing Plan).

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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 December 9, 2008.

### *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.

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,

*Jeannine Ramirez E. Smith*