

**CITY OF TEMPLE CITY  
STATUS MEETING WITH THE AUDIT STANDING COMMITTEE  
JUNE 30, 2014 FINANCIAL AUDIT  
Date: October 31, 2014 (11:00 a.m.)**

## ATTENDEES

### City of Temple City Audit Committee

- Tom Chavez, Mayor Pro-Tem
- Vincent Yu, Councilmember
- Steve Curran, Planning Commission Member

### City Finance Team

- Bryan Cook, City Manager
- Tracey Hause, Administrative Services Director
- Lee Ma, Accountant

### Vasquez & Co. Team

- Gilbert Vasquez, Managing Partner
- Peggy McBride, Engagement Partner
- Cristy Canieda, Quality Control Partner
- Mark Siegfried, Audit Manager
- Arlene Pingul, Audit Supervisor
- Marcy Caragan, IT Supervisor
- Jack Bautista, Audit Senior

## VASQUEZ DELIVERABLES

- City's Comprehensive Annual Financial Report (CAFR) – in progress; on schedule
- Single Audit Reports and related filings with the Federal agencies – report in draft stage; on schedule
- State Controller's Report - Completed and submitted to SCO on October 13, 2014
- GANN Limit Report – to be provided later in November 2014
- Management Letter Comments – draft in development; points for discussion below
- Written Communications to those Charged with Governance (SAS 114) – see items below

## AUDIT TIMELINE

See attached updated timeline.

## Open Items

- East West Bank CD Cash Confirmation
- Calabee's Note Receivable Confirmation
- MTA Prop A, C & TDA Remittances Confirmation
- Update on pending litigation and any such matters that require disclosure

## REQUIRED COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE (SAS 114)

- **Accounting Principles** - Management has primary responsibility for the accounting principles used.
- **Accounting Policies** - We believe the City's significant accounting policies are appropriate.
- **Verifiable Information** - Information underlying the financial statements has been generally verifiable, with management being appropriately neutral.
- **Reasonable Estimates** - Significant items subject to such estimates include: valuation allowances on receivables, useful lives for property and equipment, claims payable and valuation of investments. We evaluated management's assumptions used in developing the estimates and found them to be reasonable.
- **Misstatements** - Management has corrected all misstatements noted during our audit.
- **Disagreements with Management** – None.
- **Consultations with Other Accounting Firms** - Management has advised us that it has not relied on consultations with other accounting firms.
- **Significant Issues Discussed with Management Prior to Retention** – None.
- **Difficulties with Management** – We encountered no difficulties with Management. Management demonstrated an appropriate focus on internal controls over accounting, safeguarding assets and financial reporting.
- **No Irregularities, Fraud or Illegal acts** - None came to our attention.
- **Independence** – Vasquez & Company LLP is independent of the City within the meaning of the independence, integrity and objectivity rules, regulations, interpretations, and rulings of the AICPA, the State of California Board of Accountancy, the Government Auditing Standards, and other regulatory agencies.
- **City audit participation** – City staff were cooperative and forthcoming in providing the auditors the information required to perform the audit procedures.
- **Management's Representations** – Management will provide us a representation letter stating that all relevant information has been disclosed to us and that the information set forth in the financial statements is complete and accurate.

## FINDINGS AND COMMENTS

### Financial Reporting

#### **Condition:**

As part of the year-end process, there were a number of audit adjustments required to bring the account balances into agreement with the supporting detail schedules. Some of these adjustments are considered essential to the preparation of accurate financial statements. The City does not have comprehensive written monthly or year-end closing procedures to facilitate the timely review and monitoring of the accounts and the financial reporting processes.

#### **Recommendation:**

We recommend the City develop and document monthly and annual closing procedures. These procedures should include, on a monthly and annual basis, analyzing the accuracy of the month-end and year-end account balances and correcting errors found during this process. Variances should be investigated before adjustments are made, and all adjustments should be reviewed by qualified Finance Department personnel. These procedures, when performed on a monthly and an annual basis, will substantially reduce the amount of adjusting journal entries at year-end, improve the reliability of interim financial statements and allow for more timely completion of the annual financial statements and independent audit.

### Accounts Payable

#### **Condition:**

Invoices submitted by vendors are directed to the ordering department for review and approval without being first logged in and accounted for by the Finance Department. This practice can delay submission of approved invoices to the Accounts Payable Division and potentially trigger past the due penalties and failure to record the liability in the proper reporting period.

#### **Recommendation:**

We recommend that the Accounts Payable Division receive and open all invoices prior to the distribution to individual departments and perform the following procedures:

- Review invoices for possible early payment discount
- Stamp with the date of receipt
- Record the liability in the financial system thus updating the liability accounts
- Distribute invoices to individual departments for approval by department heads
- Monitor and inquire about invoices that have been outstanding over 90 days

Implementing a centralized receipt of invoices would assist in retaining an updated accounts payable general ledger and additional control over the outstanding invoices.

## **Fixed Assets**

### **Condition:**

During our evaluation of Fixed Assets/Capital Assets, we noted the absence of a formal capital assets policy, with the exception of a capitalization threshold. The adoption of and adherence to a written policy may facilitate the accurate recording of fixed asset activity and strengthen accountability for the City's capital assets.

### **Recommendation:**

We recommend the City develop and adopt a Fixed Assets Policy addressing critical issues including:

- Procurement/Acquisition – Determine who will be authorized to acquire fixed assets. This should be similar to the City's procurement policy.
- Disposal – Develop processes to authorize disposal of assets (auction, sale, donation, etc.)
- Useful life – Determine the fixed asset classifications and calculate a useful life for each class. The best source of relevant information on the estimated useful lives of a government's capital assets normally is its own past experience with similar assets or the experience of other governments and private-sector enterprises with similar assets. In estimating a useful life, it is important to consider various factors such as Quality (e.g., asphalt vs. concrete) and Application (road on a residential street vs. a commercial street)
- Capitalization threshold – It was noted that the City has a threshold of \$500. The Government Finance Officers Association (GFOA) recommends that governments establish a capitalization threshold of no less than \$5,000. This level is also consistent with Federal guidelines.
- Physical inventory – Conduct a physical inventory in FY 14-15 to create an updated accurate inventory of the City's fixed assets. Additionally, best practices as supported by GFOA guidelines recommend that at least on a test basis, a physical inventory be done no less than once every five years.
- Establish the frequency as to how often the policy should be evaluated and/or updated. For example, the useful life estimate should be compared with the City's actual experience and appropriate adjustments should be made to reflect this experience.

## **Staffing Augmentation Within the Finance Department**

### **Condition:**

The City Finance Department monitored and accounted for more than \$29 million of expenditures in fiscal year 2014. Responsibilities include compliance with Federal, State and City laws and regulations, implementation and monitoring of effective internal control systems, adoption and implementation of new accounting pronouncements, processing of financial transactions such as billings, collections, procurement, accounts payable, payroll, employee benefit payments and obligations, overseeing the recording of capital assets, and accounting for financial transactions and the City's assets and liabilities. The additional burden created by the year-end closing, reporting and auditing processes may place demands on Finance staff beyond their available time. We note that many other cities augment their accounting staff as needed to accommodate times of increased workload, whether caused by budget preparation, bond issuances or year-end reporting and auditing functions.

**Recommendation:**

We recommend the City evaluate the potential need and benefit to be gained by additional staffing during periods of peak workload. The addition of qualified accounting resources, while accompanied by a financial cost, may also allow for improved internal controls, better management information, and more timely financial reporting.

**Information Technology General Controls (ITGC) Review**

**Condition:**

While the City has made arrangements for backup of critical data, tests for recoverability of backup data have not been performed for the financial reporting system data at the application service provider (ASP) and for the data from different systems maintained by the City.

**Recommendation:**

The City's IT management should consider the following:

1. Obtain on a regular (annual) basis a copy of the SOC 1 report from the ASP to ensure that the controls are in place to secure the City data and to provide high assurance that the systems are operating effectively.
2. Test on a regular basis the recovery of critical data and applications, both for the system outsourced from the service provider and the systems managed by the City.
3. Develop formal recovery procedures for critical data and applications and establish a formal disaster recovery plan (DRP). The DRP document should be communicated to all concerned personnel and should provide for:
  - Priority, recovery time and recovery point for each of the critical applications and data
  - Recovery team and contact information with call tree
  - Offsite storage and alternate facilities or processing methods
  - Regular testing and updating of the plan.

**Condition:**

While the City employs passwords to protect against unauthorized access to City records and transaction capability, the City does not require strong passwords for network access and access to the Pentamation system. In addition, a review of users for appropriateness of access on a regular basis is not performed.

**Recommendation:**

We recommend that the City consider the following:

1. Define and enforce a strong password policy both in the network and in the financial reporting system.
2. Perform a periodic review of users and appropriateness of access for both the network and the financial reporting system.

**CITY OF TEMPLE CITY  
UPDATED AUDIT TIMELINE**

Description	Responsibility	Scheduled Date
Interim Fieldwork	V & Co	Completed
Entrance Meeting	V & Co/City	Completed
Final fieldwork	V & Co	Completed
Final TB and all audit schedules provided to Vasquez & Company (see request list for final fieldwork)	City	Completed
End of fieldwork	V & Co	Completed
Filing of State Controller's Report	V & Co	Completed
CAFR worksheets provided to the City	V & Co	11/7/2014 *
Preliminary draft Single Audit Report provided to the City	V & Co	11/17/2014
MD&A and Statistical Section provided to V& Co.	City	11/17/2017
Preliminary draft financial statements and footnotes (CAFR) provided to the City	V & Co	11/24/2014
Exit conference	V & Co/City	TBD
Review notes and changes to the CAFR provided to V & Co.	City	12/5/2014
Final review of the CAFR	V & Co/City	12/5/2014
Original signed management representation letter	City	12/12/2014
Final CAFR	V & Co	12/12/2014
Final Single Audit Report	V & Co	12/12/2014
Presentation to Audit Committee and/or City Council	V & Co	TBD

\* We will provide the CAFR worksheets in advance to provide the city sufficient time to work on MD&A and statistical section.