



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: December 1, 2017

Approved

D. D. S. L.

Date

12/1/17

**SUBJECT: EXTERNAL AUDITOR'S REPORTS: SINGLE AUDIT REPORT AND
REPORT TO THOSE CHARGED WITH GOVERNANCE FOR THE
YEAR ENDED JUNE 30, 2017**

RECOMMENDATION

Accept the Single Audit Report and Report to Those Charged with Governance for the year ended June 30, 2017 as issued by Grant Thornton LLP, the City's external auditor.

OUTCOME

To provide an overview of the schedule of the City's federal grant expenditures and the recommendations from the external auditors on the City's internal control over financial reporting and compliance for the fiscal year 2016-17 to the City Council.

BACKGROUND

The Single Audit Act of 1984 was enacted to simplify the process of auditing federal grants administered by state, local governments and non-profit organizations by combining all federal grants under one audit instead of each Federal Agency performing separate audits.

As part of the annual audit process, Grant Thornton, LLP ("Grant Thornton" or the "Auditor") audits the City's federal grant programs to ensure compliance with federal requirements as specified in the Single Audit Act of 1984, as amended. Based on the audit, the independent auditor issues a Single Audit Report to the City Council. The attached Single Audit Report contains the auditor's findings, recommendations and the City's responses and corrective action plans as appropriate.

ANALYSIS

Attached for the City Council's review are the Single Audit Report and Report to Those Charged with Governance for the year ended June 30, 2017. The reports are also posted on the City Auditor's webpage. The reports are discussed briefly below.

Single Audit Report

Grant Thornton audited the City's federal grant program, including the Airport's Passenger Facility Charge program and the Customer Facility Charge program, for the fiscal year ended June 30, 2017. The audit was conducted in accordance with Generally Accepted Auditing Standards and Government Auditing Standards. Grant Thornton reviewed the City's internal controls in light of compliance requirements applicable to each of its major federal programs and to the passenger facilities charges program.

The Single Audit Act requires any audit finding and/or questioned cost be incorporated into the Single Audit Report along with a corrective action plan. There were no audit findings or internal control deficiencies reported by Grant Thornton for federal grant program, including the Airport's Passenger Facility Charge program and the Customer Facility Charge program.

Report to Those Charged with Governance

During the course of the audit, the Auditor conducted a limited examination of the City's internal controls and management practices. The Auditor looked for material weakness or reportable conditions that would require immediate disclosure to the City Council in accordance with generally accepted auditing standards. Control deficiencies still warrant identification and remediation. As listed below, the Auditor's Report to Those Charged with Governance for fiscal year ended June 30, 2017 contains one material weakness, five significant deficiencies and no control deficiencies. A 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 and correct, misstatements on a timely basis. A material weakness is a deficiency in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A control deficiency is the least severe deficiency in that potential misstatements are not material. Staff's responses to the Auditor's findings and other communications are included in the attached report. Finally, the Auditor's Report also contains a status report of prior year findings for the Council's consideration.

<u>Reference Number and Comment</u>	<u>Material Weakness</u>	<u>Significant Deficiency</u>	<u>Control Deficiency</u>
2017-001 Controls over Estimating Loan Loss Reserves	X		
2017-002 Untimely identification of errors and lack of or inaccuracies in account reconciliation		X	
2017-003 Informational Technology: City-Wide Information Security Program		X	
2017-004 Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring		X	
2017-005 Information Technology: Change Management		X	
2017-006 Fair Value of Investments Held in Retirement Plans under GASB 72 (applicable to Retirement Office)		X	

EVALUATION AND FOLLOW-UP

No additional follow-up actions with the City Council are expected at this time.

PUBLIC OUTREACH

This item will be posted to the City Council Agenda website for the December 12, 2017 meeting.

COORDINATION

The departments to which the comments in the Report to Management apply have reviewed the comments and their responses have been incorporated into the Report. The Airport Department has reviewed the Single Audit Report and their comments have been incorporated into the Report.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

HONORABLE MAYOR AND CITY COUNCIL

December 1, 2017

Subject: 2017 Single Audit Report and Report to Those Charged with Governance

Page 4

CEQA

Not a Project, File No. PP17-010, City Organizational & Administrative Activities resulting in no changes to the physical environment.

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Grace Martinez, Deputy Director of Finance, Accounting, at (408) 535-7034.

Attachments