



AGENDA REPORT

Meeting Date: January 5, 2010
Item Number: E-1
To: Honorable Mayor & City Council
From: Scott Miller, Chief Financial Officer,
Noel Marquis, Assistant Director of Administrative Services - Finance
Sharon Rahban, CPA, Accounting Manager
Subject: PRESENTATION OF THE FISCAL YEAR ENDING JUNE 30, 2009
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Attachments: 1. The FY 2008-2009 Comprehensive Annual Financial Report
2. Management Letter

INTRODUCTION

The Administrative Services department has worked diligently in conjunction with the auditors to complete the yearly audit and to put this report together. This is the fourth year of the City's use of the audit firm Mayer Hoffman McCann P.C.

Overall, the auditors found the City's financial statements comply with required governmental and financial accounting standards as imposed by the Governmental and Financial Accounting Standards Boards (GASB and FASB). In addition, the auditors found that the City's financial statements appropriately portray the City's financial position and results of operations as of and for the year ended June 30, 2009.

Further, the auditors found no material weakness or significant deficiency and found that all operational aspects meet governmental standards. A new requirement of the Auditing Standards Board requires auditors to comment on operational recommendations. The auditors made two suggestions for greater operational efficiency which were implemented months ago. The suggestions were discussed at a public hearing with the Audit Committee.

A few of the financial highlights regarding FY 2008-2009 are:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$575,148,775 (*net assets*). Of this amount, \$170,788,396 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$34,669,445.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$145,679,884, an increase of \$1,936,837 from the prior year. Of this amount, \$51,081,339 or approximately 35.1% of total fund balances are reported as Committed (\$29,529,580), Assigned (\$2,545,603), or Unassigned (\$19,006,156) fund balances making them available for spending at the City's discretion (*in compliance with Governmental Accounting Standards Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions see Note 15*).
- The increase in the City's governmental funds reported combined fund balances was the result of an overall decrease in revenues of \$5,265,758, an increase in expenditures of \$10,892,978 and a decrease in other financing sources of \$5,694,362 resulting in a net change in fund balances of \$1,936,837 from the prior year.
- At the end of the current fiscal year, the Committed, Assigned and Unassigned (GASB Statement No. 54) fund balance for the General Fund was \$36,520,646, or 23.4% of total General Fund expenditures.
- The City's net capital assets increased by \$49,629,587 from the prior year as a result of the current capital replacement programs activities including replacement of a major reservoir, construction of a new vehicle maintenance facility, 2 new parking structures and a new four story 72,460 sq. ft. office building.
- The City's net long-term liabilities increased by \$1,800,176 or 0.62% as the result of an agreement with City National Bank to borrow against a line of credit up to an amount of \$32,000,000 for the construction of a 72,460 sq. ft. four story office building at 331 N. Foothill Road, Beverly Hills, CA 90210. The line of credit is estimated to be drawn down and the construction completed on or before April of 2010, at which time, the City plans to convert the line of credit into a long term obligation. The obligation will have a term of 15 years and an interest rate of 5.72%. Interest and principal will be payable in the amount of \$265,217 per month on the first day of the month after the loan closing. As of June 30, 2009, the amount borrowed against the line of credit is \$9,519,369. Further, based on a comment from the Governmental Finance Officers Association (GFOA) related to the City's presentation of Other Post Employment Benefits (OPEB's) in the June 30, 2008 CAFR, these liabilities were moved from being classified as short term liabilities to a Long-Term Liabilities classification.


Noel Marquis, Assistant Director of
Administrative Services - Finance

Finance Approval


Scott Miller, CFO

Approved By

Attachment 1

The FY 2008-2009 Comprehensive
Annual Financial Report
(attached separately)

Attachment 2

Management Letter



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Honorable Mayor and Members of City Council
City of Beverly Hills
Beverly Hills, California

In planning and performing our audit of the financial statements of the City of Beverly Hills ("the City") as of and for the year ended June 30, 2009, 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.

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, 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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or 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 by the City's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of internal controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we noted certain matters involving the internal control structure and its operation where improvements could be made. We offer the following recommendations for consideration by the City to strengthen its internal control structure.

Material Weaknesses

None noted

Significant Deficiencies

None noted

Control Deficiencies

(1) Controls Over Payroll Changes

Currently the Payroll Technician reviews all payroll changes by comparing the approved personnel action form (PAF) to the change made in the system. As part of this review the technician ensures that the PAF was approved by the appropriate individuals in the Human Resources department and that the change was properly made within the system. Under this current method of review, the Payroll Technician is only reviewing changes that have a PAF and would be unable to detect an unauthorized change made within the system without a PAF in a timely manner. Currently, a review of system changes is performed by the City Assistant Director of Administrative Services on a quarterly basis; however, this review is not documented as being performed.

Recommendation

We recommend that an activity report detailing all changes made to the payroll system be reviewed by an individual who does not have the ability to make changes into the payroll system. This report should be reviewed each payroll period or on a monthly basis at a minimum, to allow for discrepancies to be identified in a timely manner. We further recommend that this review be documented and maintained as support for the procedure being performed.

Management's Corrective Actions Planned

To document the review and maintain as support for the procedure being performed, the City Assistant Director of Administrative Services will save a copy of the report reviewed and initial as reviewed.

(2) Need for Improved Communication Between Departments Concerning Grants

While performing testwork over the City's federal grants, we noted one grant that had claim reimbursements for expenditures that were greater than those recorded for that specific grant within the City's general ledger. The claim reimbursements were unable to be reconciled to the general ledger.

Recommendation

We recommend that the City develop standardized procedures to monitor grant compliance between different departments. We also recommend that all grant reimbursement claims be reviewed by the Finance Department before being submitted to granting agencies, to ensure that the amount of expenditures being claimed for reimbursement agrees with the City's general ledger.

Management's Corrective Actions Planned

Currently, grant training sessions are being given which let the departments know that when they prepare financial reports for grants, they should only prepare the reports based on what is in the general ledger. If an amount that the department staff wants to use for their report does not agree to the general ledger then that staff person should contact Accounting staff to investigate and correct the discrepancy.

Honorable Mayor and Members of City Council
City of Beverly Hills
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The City's written responses to the items identified in our audit have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

This report is intended for the information and use of the City of Beverly Hills management, City Council, federal awarding agencies and pass-through entities, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 22, 2009

Current Status on Findings Noted in the Prior Year SAS 112 Letter, Dated December 19, 2008.

(1) Need to Segregate Duties Within Payroll

Status

Partially resolved – See Current Year Comment No. 1.

(2) Need to Segregate Duties over Over-the-Counter Cash Receipts

Status

Resolved – The Finance Department currently reviews all adjustments made to customer accounts, by the Customer Service Representatives, on a daily basis as part of their review of the daily transaction reports.