

# Technical Proposal to RFQ for Professional Auditing Services

## City of Desert Hot Springs

Submitted by:

Roger A. Martinez

Audit Practice Leader

Vasquez & Company LLP

801 S. Grand Avenue, Suite 400

Los Angeles, CA 90017-4646

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Date: February 9, 2017



RSM US Alliance



**V&C Vasquez**  
& Company LLP  
Certified Public Accountants and Business Consultants

## Table of Contents

Transmittal Letter .....	1
License to Practice in California .....	4
Independence .....	5
Firm Qualifications and Experience.....	6
Partner, Supervisory and Staff Qualifications and Experience.....	17
Similar engagements with other government entities .....	30
Specific Audit Approach .....	31
Identification of Anticipated Potential Audit Problems.....	47

## Transmittal Letter

February 9, 2017

### City of Desert Hot Springs

Jerryl Soriano, City Clerk  
65-950 Pierson Blvd., Building C  
Desert Hot Springs, CA 92240

### Re: Proposal to RFQ for Professional Auditing Services

Dear Mr. Soriano,

Vasquez & Company LLP (Vasquez) appreciates the opportunity to respond to the City of Desert Hot Springs' (City) request for qualifications to audit its financial statements for the three fiscal years beginning with the fiscal year ending June 30, 2017. Our understanding of the engagement and key aspects of our firm which distinguish from our competitors are summarized in this letter.

### Firm's Understanding

- Perform an audit and render an auditor's report on the Basic Financial Statements of the City and its component units in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.
  - As part of our audit, we will render a report on the basic financial statements that will include both Government-Wide Financial Statements and Combining Fund Financial Statements, and also apply limited audit procedures to Management's Discussion and Analysis (MD&A), if provided, and required supplementary information pertaining to the General Fund and each major fund of the City.
  - We will render our auditor's reports on the City's internal control over financial reporting and on compliance with relevant laws and regulations and other matters based on our audit of the financial statements.
- If applicable, perform a Single Audit of the expenditure of federal grants in accordance with U.S. Office of Management and Budget new Federal regulations entitled "*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200*" (the Uniform Guidance).
  - We will issue our report on the City's Schedule of Expenditures of Federal Awards
  - We will render an opinion on the City's compliance with requirements applicable to each Major Program
  - We will render our report on the City's internal controls over the administration of Federal funds.
- Perform an agreed-upon procedures review of the calculation of the City's GANN Appropriations Limit (GANN), as required by Section 1.5 of Article XIII-B of the California Constitution, and render letters annually to the City regarding compliance.
- Issue a Management Letter addressed to the City Manager that includes recommendations for improvements in internal control, accounting procedures, and other significant observations that are considered to be non-reportable conditions.

- Prepare and submit the Annual State Controller's Report for the City and the Desert Hot Springs Public Financing Authority.
- Perform Transient Occupancy Tax audits and render auditor's reports for three to four hotels per year as selected by the City.
- Perform an audit and render an audit report on the Utility User Tax expenditures of the City in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.
- Be available to prepare Successor Agency audits if required by Department of Finance.
- Be available to prepare DHS Housing audits if required by the Department of Finance
- Perform an audit and render an auditor's report on the Basic Financial Statements of the Desert Hot Springs Health and Wellness Foundation in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and prepare its Annual Information Return (Form 990).
- Provide guidance on the implementation of new GASB and AU-C requirements and specifics of Federal and State of California regulations as they pertain to local government accounting.

Upon request and specifically at the conclusion of our audits we will be pleased to make a presentation to the City Council, during which we will discuss our audit approach, scope and results. We pride ourselves on our ability to convey complex information in an informative fashion, free of bias, such that Management and the City Council can evaluate the significance of the information and determine action plans as may be appropriate.

## **Why Vasquez?**

We believe Vasquez is the best choice for the City for the following reasons:

### **Experienced Leaders:**

- Margaret McBride, Vasquez Government Practice Leader and former KPMG partner-in-charge of government advisory services to the Western Region to lead our delivery of services to the City.
- Roger Martinez, Vasquez Audit Practice Leader and former KPMG office of professional practice partner dealing with complex audit, accounting and risk management issues at a national level to act as the engagement quality control reviewer.
- Oscar Chacon, Vasquez IT Practice Leader, former KPMG Information Risk Management Practice Manager and former head of information security for City National Bank to oversee our evaluation and testing of City systems.

### **National Resources:**

- As part of the McGladrey Alliance we have access to the resources, tools and expertise of RSM US LLP (the fifth largest accounting firm in the United States).

### **Anticipating Your Needs:**

- Our professionals, with extensive experience in performing financial and compliance audits of local municipalities and other public agencies in California will bring an unbiased, fresh perspective to the City's systems, operations and practices.
- Our experience will allow us to assess your risk and compare your existing policies and practices to those used by other efficient, reputable agencies. We will focus on the critical areas to your operations.

**Communication with the City:**

- We will hold regularly scheduled status meetings to keep you abreast of our progress.
- We will provide you meaningful status reports.
- We will take a proactive approach to developing effective solutions to identified challenges.
- Team members, including the engagement partner and quality control partner will be available to you on a year-around basis.

**Addressing Critical Accounting Matters:**

Recognizing that your interests are best served by highly qualified, knowledgeable and trained accountants and auditors, we offer our staff and our clients:

- Frequent training in current technical matters and subjects of importance to the finance, accounting and auditing aspects of local governments such as new GASB and SAS requirements.
- Specifics of Federal and State of California regulations as they pertain to local government accounting, reporting and compliance.

**Timeliness:**

- We understand and appreciate the importance of adhering to agreed-upon timelines and meeting deadlines.
- We structure our audit approach to recognize issues early, plan for the orderly completion of our work and avoid end-of-the-audit surprises. As such, we commit to perform the work within the required time period.

**New GASB Pronouncement Experience:**

- Our team has assisted our clients in the adoption of applicable Governmental Accounting Standards Board (GASB) statements.
- Our firm assists clients in assessing their readiness to implement the new standards as well as guiding them through the actual implementation.

**Providing an Effective and Efficient Audit:**

- Our risk-based approach, our high caliber management team, and our experienced staff ensures that critical issues are not overlooked, but instead are promptly identified, communicated to you and resolved to the City's satisfaction.

Vasquez is committed to providing the City with the highest level of customer service and trust that you will find Vasquez well qualified to provide the City with professional auditing services. Should you have any questions or desire further assistance, please call me at the contact information below. I, Roger A. Martinez, Partner with Vasquez & Company LLP, am authorized to negotiate and bind the firm to contract.

VASQUEZ & COMPANY LLP



Roger A. Martinez  
Partner  
801 S. Grand Avenue, Suite 400  
Los Angeles, CA 90017-4646  
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f) 213-873-1777  
e) ram@vasquezcpa.com

## License to Practice in California

Vasquez is properly licensed to conduct public accounting in California. We further assure the City that all "key" engagement team members are properly licensed Certified Public Accountants in California. Vasquez certifies that upon notification, it will inform the City of any suspension, termination, lapse, non-renewals, or restrictions of its licenses, certificates, or other required documents.



CALIFORNIA BOARD OF ACCOUNTANCY  
2000 EVERGREEN STREET, SUITE 250  
SACRAMENTO, CA 95815-3832  
TELEPHONE: (916) 263-3680  
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### CERTIFIED PUBLIC ACCOUNTANT PARTNERSHIP

REGISTRATION PAR 6286  
RECEIPT NO. 00304166

VALID UNTIL JULY 31, 2017

VASQUEZ & CO LLP  
801 S GRAND AVE #400  
LOS ANGELES CA 90017-4646

In accordance with the provisions of  
Chapter 1, Division 3 of the Business and  
Professions Code, the firm named hereon  
is duly registered and entitled to practice  
as a Partnership.

8/20/15  
8/20/15

----- POST IN PUBLIC VIEW -----

WASPAR 05/08/09

## Independence

Vasquez meets the independence requirements of the auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, (2011 revision), published by the United States General Accounting Office ("Yellow Book") as it relates to the City and its component units.

### Independence Policies and Monitoring Programs

One of the primary objectives of our system of quality control is to provide reasonable assurance that our firms and personnel comply with relevant ethical requirements when discharging professional responsibilities. Relevant ethical requirements include independence, integrity and objectivity.

Our firm satisfies this objective by establishing and maintaining policies and enforcing specific procedures relative to the following:

- Personnel adherence to relevant ethical requirements such as those in regulations, interpretations and rules of the AICPA, Securities and Exchange Commission, Department of Labor, Public Company Accounting Oversight Board, U.S. Government Accountability Office, state CPA societies, state boards of accountancy, state statutes and any other applicable regulators.
- Communicating independence requirements to firm personnel and, where applicable, others subject to them.
- Identifying and evaluating possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards.
- Withdrawing from engagements if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.
- Written confirmation, at least annually, of compliance with policies and procedures on independence from all firm personnel required to be independent by relevant requirements.
- Confirming the independence of another firm or firm personnel in associated member firms who perform part of an engagement.
- Rotating personnel for audit or attest engagements where regulatory or other authorities require such rotation after a specified period.
- Advising acquired practice units of our policies related to independence, integrity and objectivity.

### Conflict of Interest

Vasquez has had no professional relationships involving the City or any of its component units/agencies. We further covenant that in the performance of this work, no subcontractor persons having such an interest shall be employed. We will provide written notice to the City of any professional relationships entered into during the period of this agreement.

## Firm Qualifications and Experience

Vasquez was established in 1969 as a Limited Liability Partnership registered with the State of California Department of Consumer Affairs. Vasquez is a small business enterprise certified by the State of California (#24276).

### Personnel Resources

Partners/Directors	9
Managers	8
Supervisors	4
Senior Auditors	18
Staff Auditors	22
Professionals	61
Administrators	4
Total	65

### National Resources

Vasquez is an integral part of the RSM US Alliance, a premiere affiliation of independent accounting and consulting firms in the United States, with more than 75 members in over 38 states, the Cayman Islands and Puerto Rico. This affiliation gives us access to a full range of national and international capabilities. As a member of the RSM US Alliance, Vasquez has access to the resources and services RSM provides its own clients. We accepted an invitation to become a member of the RSM US Alliance because it is a natural fit with our commitment to our clients and our determination to stay at the forefront of developments affecting accounting and consulting firms today.

RSM US Alliance provides its members with access to resources of RSM US LLP (formerly known as RSM US LLP), the leading provider of audit, tax and consulting services focused on the middle market, with more than 8,000 people in 80 offices nationwide. RSM US LLP (RSM) is a licensed CPA firm and the U.S. member of RSM International, a global network of independent audit, tax and consulting firms with more than 37,500 people over 110 countries. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM.

### Government Practice Group

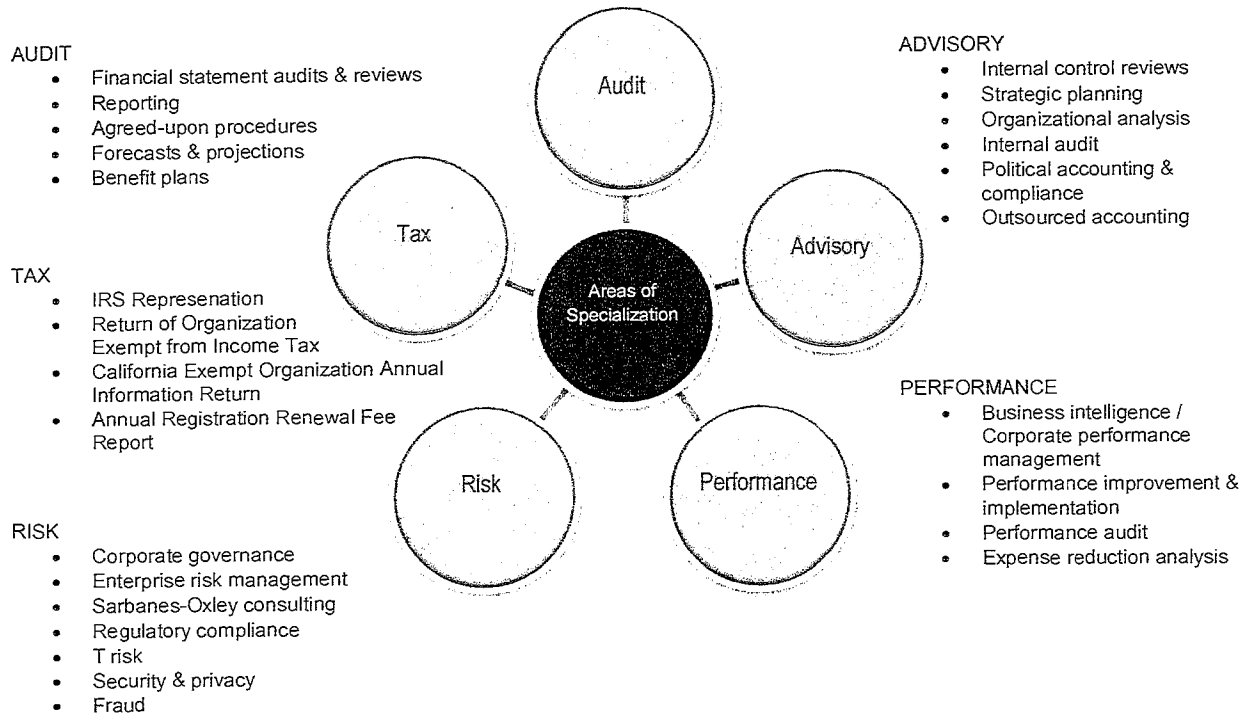
Vasquez is comprised primarily of personnel who left the prestigious "Big Four" international accounting firms to focus on their chosen industry – primarily government and nonprofit – and work with greater autonomy in a progressive, nimble and client-centric environment. The Vasquez leadership consists of nine (9) partner/directors each of who previously worked with one or more of the Big Four – KPMG, PWC, E&Y and Deloitte. This experience ensures a firm emphasis on quality, innovation, performance standards, opportunity, discipline, and professional growth.

Since inception, Vasquez has been primarily focused on serving governmental entities. Government easily comprises the largest portion of all industries we serve today.

Because of our expertise and experience in providing assurance services to the government industry, Vasquez is uniquely qualified to perform a quality compliance audit that will 1) properly assess risk, 2) determine effectiveness of internal control over the administration of major federal programs, 3) determine compliance with OMB Super Circular requirements as it relates to major programs, 4) report on significant deficiencies and/or material weaknesses as appropriate.



## Range of Services



Vasquez provides internal and external audit, management consulting, tax compliance and planning, review and compilation services. We provide internal audit services to augment the staffing needs of internal audit departments. We also provide outsourced internal auditing services and/or assist internal auditing departments with projects such as fraud risk assessment, procurement process review and testing, cash collection procedures, contract management, budgetary practices, monthly and year-end closing processes, and other areas relating to financial policies and processes. Our firm also offers technology assurance services for your information technology infrastructure. Our consultants can augment or provide your internal audit function for technology related matters; implement security strategies that enable your business; offer sound and practical advice that includes process control enhancements; or provide your organization with an appropriate technology control strategy. Our consulting services include performance audits, management advisory services and business management, such as:

- Performance Review
- Process Optimization
- Debt management
- Corporate Governance
- Mitigate financial risk
- Expense reduction studies

## Quality Control

Vasquez has an extensive quality control program designed to monitor compliance with the audit and accounting professional standards and firm policies. Our client service approach requires the active involvement of experienced partners and managers in the consulting and audit engagements to make sure that critical issues are identified and resolved on a timely basis.

## Quality Control History

Vasquez is very proud of its record of quality professional service during its over 45-year history of professional service and we state with pride that Vasquez has:

- Never had any complaints filed against it with the California State Board of Accountancy,
- Never received a negative desk or field review from any of our clients' cognizant agencies regarding any of our audits.

## Review Process

All audit engagements are required to have a secondary review by either a report review specialist or a concurring reviewer. Before the reports, the financial statements and any letter communicating reportable conditions and other letters are released, they must be reviewed by a report review specialist not otherwise associated with the engagement. The report review specialist's role is supportive to that of the partner and, organizationally, they are responsible for one or more offices.

Prior to commencement of fieldwork and as the engagement progresses toward completion, the report review specialist is expected to aid the partner and the audit team in resolving difficult accounting, auditing and reporting issues. Upon completion of the partner review and before release of the report, the report review specialist must review the financial statements, our report thereon, and the letter communicating reportable control structure conditions and any other special reports or letters to be issued.

The audit plan should be reviewed and concurred with by a concurring reviewer designated for the industry prior to commencement of fieldwork if the industry is designated as "high risk" by firm policy or when engagement risk is otherwise assessed as high and the engagement is a first-time audit for the firm. If a concurring review is performed during planning, this reviewer will also perform a review of all of the firm's reports, as well as discussing significant audit findings and issues with the engagement partner.

## Independence Policies and Monitoring Programs

One of the objectives of our system of quality control is to provide reasonable assurance that our firm and personnel comply with relevant ethical requirements when discharging professional responsibilities. Relevant ethical requirements include independence, integrity and objectivity.

Our firm satisfies this objective by establishing and maintaining policies and enforcing specific procedures relative to the following:

- Personnel adherence to relevant ethical requirements such as those in regulations, interpretations and rules of the AICPA, Securities and Exchange Commission, Department of Labor, Public Company Accounting Oversight Board, U.S. Government Accountability Office, state CPA societies, state boards of accountancy, state statutes and any other applicable regulators.
- Communicating independence requirements to firm personnel and, where applicable, others subject to them.
- Identifying and evaluating possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards.
- Withdrawing from engagements if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.
- Written confirmation, at least annually, of compliance with policies and procedures on independence from all firm personnel required to be independent by relevant requirements.
- Confirming the independence of another firm or firm personnel in associated member firm who perform part of an engagement.

- Rotating personnel for audit or attest engagements where regulatory or other authorities require such rotation after a specified period.
- Advising acquired practice units of our policies related to independence, integrity and objectivity.

### **Performance Monitoring and Assessment**

The objective of the engagement performance element of our quality control is to provide reasonable assurance that:

- Engagements are consistently performed in accordance with applicable professional standards and regulatory and legal requirements
- Our firm or engagement partner issues reports that are appropriate in the circumstances

Policies and procedures for engagement performance address all phases of the design and execution of the engagement, including engagement performance, supervision responsibilities and review responsibilities. Policies and procedures require that consultation takes place when appropriate. Also, our firm has established criteria against which all engagements are to be evaluated to determine whether an engagement quality control review should be performed.

We satisfy the above objectives by establishing and maintaining the following policies and procedures:

- Planning for engagements meets professional, regulatory and firm requirements.
- Qualified engagement team members review work performed by other team members on a timely basis.
- Vasquez establishes procedures addressing the nature, timing, extent and documentation of the engagement quality control review.
- Vasquez establishes criteria for the eligibility of engagement quality control reviewers.
- Vasquez requires that consultation take place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.

Management follow-up procedure internally called "Voice of the Client" to set tone of "how we did" and "where can we improve".

### **List of Municipal Clients**

Vasquez performs numerous financial and compliance audits of governmental organizations. These audits include risk assessments performed pursuant to a structured approach based on the standards set forth in the COSO Principles.

Our audits are performed in accordance with auditing standards generally accepted in the United States, Government Auditing Standards, OMB Super Circular, and the Office of the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts (when applicable).

Additionally, Vasquez performs the financial and compliance audits of the cities and jurisdictions included in the Los Angeles County Metropolitan Transportation Authority Consolidated Audit that receive Proposition A and Proposition C Local Return Funds, Measure R Local Return Funds and Transportation Development Act Article 3 Funds:

## **Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards**

A large number of our government clients receive federal funds. Our success in effectively serving these entities is based in part, on our significant knowledge and experience with U.S. Office of Management and Budget new Federal regulations entitled "*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200*" (the Uniform Guidance).

We are proposing for the City an engagement team with substantial experience in auditing governmental entities for both financial and compliance audits. Our industry-focused staff has undergone training courses dedicated to governmental accounting, auditing and financial reporting, as well as specialized training in the compliance requirements of OMB Circular A-133 and the new OMB Super Circular regarding changes in Single Audit requirements. Our partners have conducted training for professional organizations on the subject of the new Uniform Guidance. The Uniform Guidance includes several requirements, some of which are:

- Financial management systems must include such items as written procedures for determining the allowability of costs in accordance with cost principles and the terms and conditions of the federal awards, and written procedures to implement the requirements for cash management.
- Time and payroll cost distribution records must be maintained for all employees whose salary is paid in whole or in part with federal funds, and payroll costs allocated to federal programs may not be based on budget estimates alone, but instead must reflect the actual expenditure of effort.
- Accounting records must be supported by a system of internal controls which provides reasonable assurance that amounts are accurate, allowable and properly allocated.
- Internal controls should be in compliance with guidance contained in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Procurement standards covering small purchases, micro-purchases, sealed bids, competitive proposals, and sole source procurements that must be adhered to.
- Subrecipient monitoring includes the requirement that each potential subrecipient must be evaluated for risk of noncompliance with Federal requirements, must be monitored, and must be audited when required, with the audit results considered by the awarding entity.
- The entity must establish and maintain effective internal controls over federal awards, including establishing reasonable budgets that minimize incentives to miscode expenditures and performing risk assessments to identify procedures and controls that should be strengthened in order to prevent or identify unallowable activities.
- Property records must be supported by at least a bi-annual physical inventory and include all the data elements outlined in the regulations.
- Awards of contracts for goods or services on a sole source basis must be supported by a written justification.
- Any interest earned on federal monies must be credited back to the federal government.

## **Comprehensive Annual Financial Reports**

Vasquez professionals are acknowledged experts on GAGAS regulations and GASB reporting requirements. We have substantial experience in the preparation of Comprehensive Annual Financial Reports that has assisted our clients in achieving the Government Finance Officers Association award for Excellence in Financial Reporting.

## **Management Letter Comments**

Providing value added management letter comments is a priority for Vasquez. The unique experience that our auditors/consultants possess enables us to provide meaningful assistance beyond what most audit firms can provide. We do this through many different forms, but it comes primarily in the form of early identification of issues before they become major problems for our clients. We meet with our clients throughout the year so that we can get a better understanding of the challenges they are facing. Our clients have realized many benefits including: improved operational efficiencies, security and proactive prevention of potential future audit issues.

During routine procedures performed by one of our IT auditors over the implementation of a new ERP system at one of our new clients, our IT Manager noted that the client's IT department and IT consultant had not addressed key issues that were critical to the operations of our client. We immediately brought our concerns to the attention of upper management who took action right away. Although our comments did cause a delay in the go-live date, the client realized it was in their best interest to delay the launch so that the concerns identified could be addressed leading to fewer disruptions to operations.

## **GASB Pronouncements**

Our firm encourages early adoption of all applicable Government Accounting Standards Board (GASB) statements. Some of these standards have been monumental in establishing new financial reporting requirements for state and local governments throughout the United States, and restructured much of the information that had been presented in the past.

In prior years, the major focus has been Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 35, Basic Financial Statements and Management's Discussion and analysis- for public colleges and universities. Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements. In addition, the challenges posed by Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions have strained educational accounting staff to great lengths.

We take a proactive approach in assisting all our government clients understand GASB activities from exposure drafts to implementation of new standards. We accomplish this through our collaborations with GASB, GFOA, ASBO, AICPA Government Audit Quality Center, and by taking the time to sit down with clients to discuss and plan for the impact of new GASB standards.

As a member of the RSM US Alliance, Vasquez personnel are routinely updated through RSM's formal and informal relationships with the officials of most key federal departments. They have participated as an advisor to the President's Council on Integrity and Efficiency through the Quality of Audit Roundtable. They also maintain relationships with officials in the Office of Inspector General of many federal departments and agencies, as well as close working relationships with key officials within GAO and OMB.

## **Pronouncements Issued But Not Yet Adopted**

The GASB has issued pronouncements that have effective dates on or subsequent to June 30, 2016, which may impact future financial presentations. We will be pleased to help the City implement the Statements that have been issued, but not yet implemented and to discuss what, if any, impact implementation of the statements may have on the financial statements of the City.

We take a very proactive approach in helping our clients understand GASB activities from exposure drafts, such as the GASB Exposure Draft on Other Post-Employment Benefits, to implementation of new standards. We accomplish this through our collaborations with GASB, GFOA, and the AICPA Government Audit Quality Center, and more importantly by taking the time to sit down with clients to discuss and plan for the impact of new GASB standards.

Recognizing that your interests are best served by highly qualified, knowledgeable and trained accountants and auditors, we offer our staff and our clients frequent training in current technical matters and subjects of importance to the finance, accounting and auditing aspects of local governments. We will provide the City a minimum of eight (8) hours of continuing professional education annually, and will also invite you to our annual Governmental Update Conference. As your accounting and business advisor, we embrace a forward-thinking approach on upcoming accounting pronouncements and will work with the City to facilitate timely implementation. We provide guidance and training to your personnel on the implementation of new GASB requirements and specifics of Federal and State of California regulations as they pertain to local government accounting early so that the City personnel will be able to provide the necessary information that will allow for an efficient and cost effective audit.

### **New Market Tax Credits**

Since 2010 Vasquez has audited the Los Angeles LDC, Inc. and Subsidiaries, a nonprofit community development financial services corporation organized to promote community development by initiating, sponsoring, promoting and carrying out plans, policies and activities that promote the creation and retention of jobs by expanding businesses and revitalizing economically distressed communities primarily throughout the County of Los Angeles.

The Los Angeles LDC, Inc. is a Community Development Financial Institution. It is authorized to make commercial loans under a Commercial Finance Lenders license by the California Department of Business Oversight.

Vasquez audits the 504 ACE Loan Fund I (2004), LLC. The Fund was capitalized with \$10 million from accredited investors, of which 10% interest is owned by LDC Management Services, LLC, a wholly-owned subsidiary of Los Angeles LDC, Inc.

Additionally, Vasquez audits the Southern California Business Development Corporation. The Southern California Business Development Corporation (Company) was incorporated in September 1992 and commenced business in April 1993 as a for-profit consortium of 27 California banks. The Company's focus is community reinvestment by targeting small businesses with growth opportunities in Los Angeles, California. In August 1999, the Company decided to terminate its own lending program and to assist its target market through supporting the activities of Los Angeles LDC, Inc. (LALDC), a not-for-profit, community development financial services corporation, based in Los Angeles, CA.

### **Quality Control**

Vasquez has an extensive quality control program designed to monitor compliance with the audit and accounting professional standards and firm policies. Our client service approach requires the active involvement of experienced partners and managers in the consulting and audit engagements to make sure that critical issues are identified and resolved on a timely basis.

### **Quality Control History**

Vasquez is very proud of its record of quality professional service during its over 45-year history of professional service and we state with pride that Vasquez has:

- Never had any complaints filed against it with the California State Board of Accountancy,
- Never received a negative desk or field review from any of our clients' cognizant agencies regarding any of our audits.

## Review Process

All audit engagements are required to have a secondary review by either a report review specialist or a concurring reviewer. Before the reports, the financial statements and any letter communicating reportable conditions and other letters are released, they must be reviewed by a report review specialist not otherwise associated with the engagement. The report review specialist's role is supportive to that of the partner and, organizationally, they are responsible for one or more offices.

Prior to commencement of fieldwork and as the engagement progresses toward completion, the report review specialist is expected to aid the partner and the audit team in resolving difficult accounting, auditing and reporting issues. Upon completion of the partner review and before release of the report, the report review specialist must review the financial statements, our report thereon, and the letter communicating reportable control structure conditions and any other special reports or letters to be issued.

The audit plan should be reviewed and concurred with by a concurring reviewer designated for the industry prior to commencement of fieldwork if the industry is designated as "high risk" by firm policy or when engagement risk is otherwise assessed as high and the engagement is a first-time audit for the firm. If a concurring review is performed during planning, this reviewer will also perform a review of all of the firm's reports, as well as discussing significant audit findings and issues with the engagement partner.

## Performance Monitoring and Assessment

The objective of the engagement performance element of our quality control is to provide reasonable assurance that:

- Engagements are consistently performed in accordance with applicable professional standards and regulatory and legal requirements
- Our firm or engagement partner issues reports that are appropriate in the circumstances

Policies and procedures for engagement performance address all phases of the design and execution of the engagement, including engagement performance, supervision responsibilities and review responsibilities. Policies and procedures require that consultation takes place when appropriate. Also, our firm has established criteria against which all engagements are to be evaluated to determine whether an engagement quality control review should be performed.

We satisfy the above objectives by establishing and maintaining the following policies and procedures:

- Planning for engagements meets professional, regulatory and firm requirements.
- Qualified engagement team members review work performed by other team members on a timely basis.
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- Vasquez establishes criteria for the eligibility of engagement quality control reviewers.
- Vasquez requires that consultation take place when appropriate; that sufficient and appropriate resources are available to enable appropriate consultation to take place; that all the relevant facts known to the engagement team are provided to those consulted; that the nature, scope and conclusions of such consultations are documented; and that conclusions resulting from such consultations are implemented.

Management follow-up procedure internally called "Voice of the Client" to set tone of "how we did" and "where can we improve".

## **Federal or State Desk or Field Reviews**

Vasquez is proud of its record of quality professional service throughout its over 45-year history and state with that our firm:

- Has never had any complaints filed against it with the California State Board of Accountancy for substandard work or for any other reason,
- Has never received a negative desk or field review from any of our clients' cognizant agencies regarding any of our audits
- Is not currently involved in litigation with a current or former client nor is it aware of any pending or threatened claims or assessments.

## **Nonprofit Tax Experience**

Vasquez has extensive experience working with and communicating the unique and complex IRS regulations for nonprofit organizations. These areas include 501(c)(3) specific compliance areas, proper accounting for charitable contribution income, non-cash donations, quid pro quo donations, contributions and pledges receivable, unrelated business income tax, related party transactions and the importance of conducting them at fair market value in an arm's length manner, IRS 4958 intermediate sanctions and safe harbor guidance, compensation structuring, conflict of interest statements, and other specific matters related to nonprofit governance that are important for the organizations to have knowledge of, implement, and abide by as part of their ongoing best practices and organizational policies. Our clients appreciate our specialized knowledge as it helps make for a uniquely purposeful and meaningful relationship as we concentrate on highlighting these issues to management and the board of directors by providing key advice and direction in these areas. A traditional accounting or auditing firm serving only corporate clients may not have the insight to make these meaningful recommendations. We are familiar with specific nonprofit matters and notice issues that other generic auditing firms may not recognize.

## **Peer Review Report**

Vasquez is a member of the American Institute of Certified Public Accountants (AICPA) Division of Firms and received a Peer Review Rating of 'Pass' without comment - the highest rating from the AICPA on its peer review, dated February 22, 2017. This peer review covered several government engagements similar in size and complexity as the City. A copy of the peer review opinion follows:





**Peer Review Program**

Administered by the National Peer Review Committee

American Institute of CPAs  
220 Leigh Farm Road  
Darien, NC 27802-8170

February 22, 2017

Guillermo R. Vasquez  
Vasquez & Company, LLP  
801 S Grand Ave Ste 400  
Los Angeles CA 90017

Dear Mr. Vasquez:

It is my pleasure to notify you that on the National Peer Review Committee accepted the report on the most recent external peer review of your firm. The due date for your next review is September 30, 2019. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Michael Farley  
Chair—National PRC  
nprrc@aicpa.org 919 4024502

cc: Luzenna D. Terrell, Roger A. Martinez

Firm Number: 10135115

Review Number 424560

Letter ID: 11-48269A

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**System Review Report**

September 15, 2016

To the Partners  
Vasquez & Company LLP  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Vasquez & Company LLP (the firm) applicable to non-SEC issuers in effect for the year ended December 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Vasquez & Company LLP applicable to non-SEC issuers in effect for the year ended December 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Vasquez & Company LLP has received a peer review rating of *pass*.

*Davis Kinard & Co., PC*  
Certified Public Accountants

## Partner, Supervisory and Staff Qualifications and Experience

Our proposed client service team consists of professionals who will work with you to navigate through the complexity of your organization and turn that complexity into opportunities through our exceptional service. Our team structure, staffing, service approach, communication and coordination are refined to fit the unique needs of the City. We staff our engagements with individuals focused on a dedicated industry because of their desire to make a positive impact with their careers, resulting in continuity of the team members you work with year after year.

Our expertise in the government industry allows our team to understand the nuances of your specific business and translate that knowledge into better solutions, faster responses to your questions and a more comfortable (and valuable) working relationship overall.

We devote significant time to training and research activities to understand the economics, operations and trends affecting local government. Our perspective is that of a knowledgeable independent auditor who can relate to the unique aspects of the City. This perspective enables us to provide efficient and cost-effective audit services for our clients.

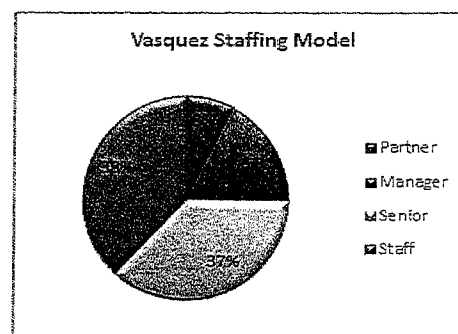
You should note that the audit team we are proposing for the City assignment has experience with other entities similar to yours. The advantage to the City is the confidence you'll have in knowing you will be served by partners, managers and staff with direct experience with your operations, systems and personnel.

### Partner Involvement

Our structure ensures that senior engagement team members are able to spend time on-site, checking the quality of our work, not just verifying we are on target to meet deadlines. Our lead engagement partner, Margaret McBride, resides in Carlsbad and will provide frequent, valuable on-site interaction with City staff and close supervision of the audit team. Ms. McBride and all senior members will engage in regularly scheduled meetings with you to answer questions, provide guidance, and help ensure issues are identified and resolved in a timely manner. With our partners on site, informal meetings can more readily occur, and issues get resolved in front of your desk rather than behind ours.

Vasquez has built its reputation on close partner involvement and maintaining strong client relationships. We have structured our engagement team with extensive partner involvement. You will find our average partner-to-staff leverage ratio is higher than most other firms.

Beyond partner leadership and support, an audit is only as good as the people doing the bulk of the work on a day-to-day basis. We are committed to providing a staff resource pool that embodies the attributes that you expect of your auditor, including technical expertise in GASB, knowledge of the government and private industries, and softer skills such as respect, empathy, and timely response to questions. Each team member that we have allocated to serve the City brings relevant experience and receives industry training through our Continuing Professional Education program.



### Continuing Professional Education Program

To ensure that our professional staff remains up to date on the latest audit and accounting developments, and to meet the requirements for maintaining active licensure in good standing, we see to it that our professional staff receives the required number of CPE hours within the established period. Vasquez also

conducts in-house seminars for the professional staff. Our team is held to a high standard of quality and we offer the following CPE Programs for our staff:

- Continuing Education courses provided by the American Institute of Certified Public Accountants (AICPA), which the firm sponsors live and in-house for its staff and clients conducted by highly qualified professionals from the AICPA and the California CPA Education Foundation,
- Attendance at conferences and seminars related to government accounting sponsored by:
  - Government Finance Officers Association,
  - Association of Local Government Auditors, and the
  - California Society of Municipal Finance Officers
  - A wide array of in-person and webinar training courses provided through the RSM U.S. Alliance.

Following is a list of CPE course provided by Vasquez for the current year and the past three (3) years:

Course	Date
GASB 75 OPEB Implementation	2/08/2017
Revenue Recognition under ASC 606	1/12/2017
Introduction to Single Audit	12/15/2016
Introduction to Government Auditing Standards	12/14/2016
Introduction to Governmental Audit and Accounting Issues	12/13/2016
Introduction to Not-for-Profit Audit and Accounting	12/12/2016
Document Requirements of Retirement Plans	12/09/2016
Audit year end Alert	12/08/2016
Annual Independence Update	12/01/2016
Audit Documentation	10/25/2016
Q3 Emerging Topics in Auditing 2016	10/19/2016
Designing and Performing Analytical Procedures	9/29/2016
IDEA Training	9/28/2016
Basics of Internal Control	9/08/2016
Compliance Update Intermediate	8/09/2016
Auditors Responsibility for Fraud	5/17/2016
Audit Documentation	5/16/2016
Q1 Emerging Topics in Auditing 2016	5/05/2016
2016 Government and Nonprofit Updates	4/21/2016
Uniform Guidance Training	3/18/2016
Interpreting of The Yellow Book	2/25/2016
Governmental and Nonprofit Annual Update	2/24/2016

Course	Date
Designing and Performing Analytical Procedures	8/14/2015
GASB Statement No. 68 Audit and Accounting Workshop	8/12/2015
Auditor's Responsibility for Fraud	8/07/2015
Introduction to Single Audit Webcast	7/10/2015
Payment Card Industry (PCI) Compliance: Key considerations for non-profits and the public sector	6/23/2015
RSM US Further Audit Procedures	5/14/2015
Audit Documentation	5/14/2015
Government Accounting and Auditing Conference	5/12/2015
Student Financial Aid – Advanced	5/08/2015
Compilations and Reviews Risks, Procedures and Fraud	4/29/2015
Avoiding Problems in Conducting Single Audits	4/23/2015
Annual state and local government accounting update for 2015	4/23/2015
Q1 Current Accounting Topics Quarterly Update – 2015	4/14/2015
Current Accounting Topics Quarterly Update – 2015	4/14/2015
Frequent Frauds Found in Governments and Not-for-Profits Webcast	4/13/2015
Audits of State and Local Governments – What You Need to Know	3/17/2015
Basic Concepts of Governmental Accounting, Financial Reporting and Auditing	3/16/2015
Security Threats and Remediation Strategies for the Public Sector	8/26/2014
New Uniform Grant Requirements: What Your Organization Needs to Know Today!	7/29/2014
New COSO Standards	7/24/2014
Government Update 2014 Accounting, Auditing & Risk Management	7/24/2014
GASB Statement No. 68 New Pension Standard	7/24/2014
Fraud – Managing and Mitigating Its Effects	7/24/2014
Introduction to Single Audit Webcast	7/11/2014
Introduction to Government Auditing Standards Webcast	7/10/2014
Introduction to Not-for-Profit Audit and Accounting Issues Webcast	7/08/2014
Level 2: Auditing Core Skills	6/02/2014
Introduction to Audit Sampling Self-Study	6/02/2014
Q1 Emerging Topics In Auditing – 2014	4/23/2014



## MARGARET J. MCBRIDE, CPA

### Lead Partner

Margaret (Peggy) McBride, Vasquez Government Practice Leader and former KPMG partner-in-charge of government advisory services to the Western Region will be responsible for leading our delivery of services to the City. She will develop our engagement strategy, provide on-site direction to our team, work closely with City management and be available throughout the term of the engagement to ensure proactive issue identification and service delivery.

### Areas of Expertise

Peggy has worked principally in the governmental (federal, state, municipal, special district including water districts and primary and secondary education districts, public colleges and universities) and not-for-profit industries (foundations, private schools and universities, health and welfare and arts organizations).

### Representation of Experience

- City of Baldwin Park
- City of Brea
- City of Carson
- City of Colton
- City of Corona
- City of Compton
- City of Dana Point
- City of El Monte
- City of Encinitas
- City of Hawthorne
- City of Irvine
- City of Long Beach
- City of Lynwood
- City of Vernon
- City of Moreno Valley
- City of Newport Beach
- City of Norwalk
- City of Orange
- City of Pasadena
- City of Pico Rivera
- City of Redlands
- City of Riverside
- City of Santa Ana
- City of Simi Valley
- City of Temple City
- County of San Bernardino
- County of San Diego
- County of Santa Barbara
- County of San Francisco
- County of Los Angeles
- County of Riverside
- County of Orange
- Community Development Commission of the County of Los Angeles

### Professional Background and Affiliations

Peggy served on the State Board of Directors of the California Society of Certified Public Accountants and as the Chairperson of its Audit Committee, and as President of its Orange/Long Beach Chapter. She has also served as a reviewer for the Government Finance Officers Association (GFOA)'s Certificate of Achievement for Excellence in Financial Reporting program.

### Educational Background

Peggy received her Bachelor of Business Administration degree from the University of Missouri-Columbia. She remains current on accounting matters by attending conferences and continuing education courses which are heavily focused on subjects of interest and applicable to SCAG including primary governmental accounting and financial reporting, as well as federal and state regulatory matters and auditing requirements.

## Continuing Professional Education

Following are the continuing professional education courses completed by Margaret McBride in the past three years:

Course Title	Subject Code	Date
Performing Risk Assessments – Instructor & Participant	GV	3/09/2016
Performing Risk Assessments – Participant	GV	3/09/2016
Uniform Guidance In-House Training	GV	3/18/2016
SFA and State Compliance for Community Colleges Training	GV	8/05/2016
Government & Nonprofit Update	GV	4/21/2016
Enterprise Risk Management – Applying the COSO Framework	GV	9/16/2015
New OMB Uniform Guidance	GV	9/15/2015
Governmental Update 2015: Accounting, Auditing & Risk Management	GV	7/23/2015
IDEA Introductory Lessons	AA	7/10/2015
McGladrey's Further Audit Procedures	AA	5/14/2015
Government Accounting and Auditing Conference	GV	5/12/2015
McGladrey's Risk Assessment Process	AA	5/11/2015
Compilation and Reviews Risks, Procedures and Fraud	AA	4/29/2015
Government Audit Quality Center Annual Update Webcast	GV	4/28/2015
Avoiding Problems in Conducting Single Audits	GV	4/23/2015
Current Accounting Topics Quarterly Update – 2015	AA	4/14/2015
Frequent Frauds Found in Governments and Not-for-Profit Webcast	FR	4/13/2015
Audits of State and Local Governments – What You Need to Know	GV	3/17/2015
Basic Concepts of Government Accounting, Financial Reporting and Auditing	GV	3/16/2015
New COSO Standards	GV	9/18/2014
Fraud – Managing and Mitigating Against Its Effect	GV	8/24/2014
Governmental Entities Accounting and Auditing Update	GV	7/24/2014
Fair Labor Standards Act	RR	6/26/2014
Auditing for Fraud in a Governmental Environment	GV	4/18/2014
Super Circular Grant Reform	GV	1/30/2014
The New A-133 Super Circular Grant Reform	AA	1/30/2014



## ROGER A. MARTINEZ, CPA

### Engagement Quality Control Review Partner

Roger Martinez, Vasquez Engagement Quality Control Review Partner and former KPMG national office practice partner dealing complex audit, accounting, and risk management issues at a national level will have the responsibility of technical reviewer for the City engagement. He will be the professional standards reviewer of reports issued and will work closely with the Lead Partner in reviewing and evaluating the fieldwork.

### Areas of Expertise

Roger's areas of expertise include overseeing all aspects of financial and compliance audits including internal control reviews, Single Audits performed in accordance with Office of Management and Budget "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200" (the Uniform Guidance), program specific audits, financial statement reviews, forecasts and projections to some of the largest and most complex governmental or regulated entities in California. His expertise also includes serving as a quality technical reviewer of governments at a national level and acting as an instructor on accounting, auditing and reporting issues to the public sector throughout the United States.

### Representation of Experience

- City of Long Beach
- City of Vernon
- City of Adelanto
- City of Cudahy
- City of El Monte
- City of Huntington Park
- City of Norwalk
- Township of Addison
- Village of Hillside
- Village of Merrionette Park
- Village of Posen
- Village of River Grove

### Professional Background and Affiliations

Roger's professional background includes partner in KPMG National Office for a total of 17 years in the profession. Roger has served an extensive number of special purpose governments concentrated in the Western region of the United States. He has provided professional audit and consulting services to some of the largest, most complex governmental entities in California. He is a member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, Los Angeles Chamber of Commerce, Association of Latino Professionals in Finance and Accounting, the California Society of Municipal Finance Officers, Catholic Association of Latino Leaders and the Rotary Club of Los Angeles. He is a former member of the board of directors for the Los Angeles Economic Development Corporation and currently serves on the board of directors for LINC Housing, the Salvation Army, International Trade Education Programs and the Los Angeles County Medical Association.

### Educational Background

Roger received his Bachelor of Arts, Major in Economics and Minor in Accounting from the University of California, Los Angeles. He remains current on accounting matters by attending conferences and continuing education courses which are heavily focused on subjects of interest and applicable to the City, including primary governmental accounting and financial reporting, as well as federal and state regulatory matters and auditing requirements

### Continuing Professional Education

Following are the continuing professional education courses completed by Roger Martinez in the past three years:

Course Title	Subject Code	Date
Q4 Current Accounting Topics Quarterly Update – 2015	AA	1/08/2016
A&A Leader Roundtable	AA & NT	1/14/2016
Accountant's Liability: Raise Your Risks IQ	E	1/18/2016
Interpreting the Yellow Book	GV	2/25/2016
Uniform Guidance Training	GV	3/18/2016
2016 Government & Nonprofit Audit & Accounting Updates	GV	4/21/2016
Audit Documentation	AA	5/16/2016
Designing and Performing Analytical Procedures	AA	5/16/2016
Auditors' Responsibility for Fraud	FR	5/17/2016
Governmental Update 2015: Accounting, Auditing & Risk Management	GV	7/23/2015
IDEA Introductory Lessons	AA	7/10/2015
Government Accounting and Auditing Conference	GV	5/12/2015
McGladrey's Risk Assessment Process	AA	5/11/2015
Government Audit Quality Center Annual Update Webcast	GV	4/28/2015
Avoiding Problems in Conducting Single Audits	GV	4/23/2015
Current Accounting Topics Quarterly Update – 2015	AA	4/14/2015
Frequent Frauds Found in Governments and Not-for-Profit Webcast	FR	4/13/2015
Audits of State and Local Governments – What You Need to Know	GV	3/17/2015
Basic Concepts of Government Accounting, Financial Reporting and Auditing	GV	3/16/2015
Auditing I Self-Study	AA	7/29/2014
Introduction to Government Auditing Standards Webcast	GV	7/10/2014
Introduction to Governmental Audit and Accounting Issues Webcast	GV	7/09/2014
Introduction to Not-for-Profit Audit and Accounting Issues Webcast	AA	7/08/2014
Q1 Emerging Topics in Auditing – 2014	AA	4/23/2014
Q1 Current Accounting Topics Quarterly Update – 2014	AA	4/15/2014
SEC and Financial Reporting Institute Conference	AA	7/05/2014
Governmental Entities Accounting and Auditing Update	GV	7/24/2014
COSO 2013	AA	9/17/2014





## OSCAR CHACON, CISA

### IT Partner

Oscar Chacon, Vasquez Information Technology Partner and former KPMG Information Risk Management Practice Manager with twenty (20) years of public accounting consulting and corporate management in the areas of information systems audit/assurance, information security, financial auditing and professional consulting services will oversee our IT audit procedures over City systems.

### Area of Expertise

Oscar's practice is focused on the evaluation of technology related processes and controls and overseeing the implementation of technology assurance and information security initiatives. His expertise covers the development of work standards and methodologies in conducting information system control reviews. He is a bank regulatory controls specialist for information technology. Other areas of Mr. Chacon's expertise are in: Internal Audit Outsourcing and Co-sourcing, Sarbanes-Oxley Readiness, Bank Regulatory Compliance, Third Party Assurance Services under SSAE 16, and Information Security Architectures.

### Representation of Experience

- City of Pasadena
- City of San Fernando
- City of Moreno Valley
- City of El Monte
- City of Cudahy
- City of Vernon
- Alameda Corridor Transportation Authority
- Southern California Association of Governments
- AIDS Healthcare Foundation
- California State University System
- Los Angeles World Airports
- City National Bank
- Los Angeles County Museum of Art
- Sterling Savings Bank
- San Gabriel Water Company
- Arizona Water Company

### Professional Background and Affiliations

Oscar's experience includes eight years with KPMG LLP's Information Risk Management Practice. During Oscar's tenure with KPMG he managed the I.T. portion of the California State University System financial audit.

Oscar also served as the head of information security at City National Bank where he was commended by the Comptroller of the Currency for key information security initiatives. Oscar is a Certified Systems Information Auditor, certified by the Information Systems Audit Control Association.

### Educational Background

Oscar received his Bachelor of Science degree in Computer Information Systems, emphasis in Systems Analysis and a Bachelor of Science degree in Business Administration, emphasis in Accounting with a Minor in Economics from California State University, Los Angeles. He holds a certificate in EDP Auditing/Quality Assurance from University of California, Los Angeles-Extension.

### Continuing Professional Education

Following are the continuing professional education courses completed by Oscar Chacon in the past three years:

Course Title	Subject Code	Date
Statistical Data Analysis with Tableau	OT	2016
Training for Operational and IT Auditing	OT	2016
Training for Interactive Data Extraction and Analysis IDEA	OT	2016
RSM US's Risk Assessment Process	AA	2015
IDEA Introductory Lessons	OT	2015
Gartner Security & Risk Management Summit 2014	OT	2014



## ARLENE IBAÑEZ-PINGUL

### Manager

Arlene Ibañez-Pingul, Vasquez Manager with fifteen (15) years of public accounting and auditing experience will work closely with the Lead Partner in planning, coordinating and reviewing the fieldwork for the County Task Orders. She will manage the day-to-day activities and task accomplishments, monitoring progress, and ensure schedule compliance. She will also work to ensure on-going timely communication among all levels of the engagement team and will spend significant time on-site, ensuring the smooth operation of our audit process.

### Areas of Expertise

Arlene's areas of expertise include overseeing all aspects of financial and compliance audits including internal control reviews, Single Audits performed in accordance with Office of Management and Budget new Federal regulations entitled "*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200*" (the Uniform Guidance), program specific audits, financial statement reviews, forecasts and projections to government agencies; preparation of comprehensive annual financial reports, State Controller's reports.

### Representation of Experience

- City of Lynwood
- City of Carson
- City of La Puente
- City of Hawthorne
- City of Huntington Park
- City of Norwalk
- City of Temple City
- Community Development Commission of Los Angeles County
- City of Simi Valley
- City of Cerritos
- City of Temecula
- City of Irvine
- City of San Juan Capistrano
- City of Lake Elsinore
- City of Santa Clarita
- City of Healdsburg

### Professional Background

Arlene's professional background includes auditor positions with PricewaterhouseCoopers and Diehl Evans & Company LLP.

### Educational Background

Arlene received her Bachelor of Science in Business Administration in Accounting from Tarlac State University. She earned her Masters of Business Administration from De La Salle University. She remains current on accounting matters by attending conferences and continuing education courses which are heavily focused on subjects of interest and applicable to the City including primary governmental accounting and financial reporting, as well as federal and state regulatory matters and auditing requirements.

### Continuing Professional Education

Following are the continuing professional education courses completed by Arlene Pingul in the past three years:

Course Title	Subject Code	Date
Compliance Audit Update Advanced	AA	8/11/2016
Q2 Current Accounting Topics	AA	7/20/2016
Auditor's Responsibility for Fraud	FR	5/17/2016
Audit Documentation	AA	5/16/2016
Designing and Performing Analytical Procedures	AA	5/16/2016
Risk Assessment Process	AA	5/09/2016
2016 Government & Non-Profit Updates	AA	4/21/2016
Uniform Guidance Training	GV	3/18/2016
Government and Non-Profit Update	GV	2/24/2016
McGladrey Audit Procedures	AA	5/14/2015
Audit Documentation	AA	5/14/2015
Introduction to Governmental Audit and Accounting Issues	GV	7/8/2015
Introduction to Government Auditing Standards	GV	7/9/2015
Introduction to Single Audit	GV	7/10/2015
Auditor's Responsibility for Fraud	FR	8/17/2015
Audits of State, and Local Gov'ts: What You Need to Know	GV	3/17/2015
Government Update 2015	GV	7/23/2015
Cybersecurity & Data Breach Preparedness Part II	OT	2/25/2015
Cybersecurity & Data Breach Preparedness Part III	OT	3/4/2015
Administrative Rules for Federal Grants	GV	4/17/2014
Auditing for Fraud in the Government Environment	GV	4/18/2014
Accounting Research Manager Training	AA	7/09/2014
Introduction to Government Audit and Accounting Issues	GV	7/09/2014
Introduction to Government Auditing Standards	GV	7/10/2014
Introduction to Single Audit	GV	7/11/2014
Fraud	GV	7/16/2014
Government Training and Updates	GV	7/24/2014



## CARMEN VALLARTA, CPA, CIA, CFE

### Lead Senior Auditor

Carmen Vallarta, Senior Auditor with ten (10) years of public accounting and auditing experience will work closely with Vasquez management in planning and coordinating for the City engagement. She will perform audit fieldwork procedures and report preparation as well as provide guidance to audit staff in the field.

### Area of Expertise

Carmen's practice is focused on participating in financial and compliance audits including internal control reviews, Single Audits performed in accordance with Office of Management and Budget new Federal regulations entitled "*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200*" (the Uniform Guidance), program specific audits, financial statement reviews, forecasts and projections to government agencies; preparation of comprehensive annual financial reports, State Controller's reports.

### Representation of Experience

- City of Vernon
- City of Montebello
- City of Norwalk
- City of El Monte
- City of Temple City
- Community Development Commission of Los Angeles County
- Los Angeles County Metropolitan Transportation Authority

### Professional Background

Carmen's professional background includes senior auditor with KPMG, International Expatriate Services, Tax and Corporate Services Department. Her past experience also includes the Illinois Office of the Auditor General performing examinations for the Regional Office of Education, Office of the State Treasurer, Department of Natural Resources, Emergency Management Agency, and State Board of Education.

### Educational Background

Carmen received her Bachelor of Science degree in Accountancy from De La Salle University. She remains current on accounting matters by attending conferences and continuing education courses which are heavily focused on subjects of interest and applicable to the City, including primary governmental accounting and financial reporting, as well as federal and state regulatory matters and auditing requirements.

## Continuing Professional Education

Following are the continuing professional education courses completed by Carmen Vallarta in the past three years:

Course Title	Subject Code	Date
Basics of Internal Control Webcast	AA	9/08/2016
EBP Tax Compliance	T	5/24/2016
Auditor's Responsibility for Fraud	F	5/17/2016
Audit Documentation	AA	5/16/2016
RSM US Risk Assessment Process	AA	5/09/2016
Student Financial Aid Update	AA	5/05/2016
Introduction to SEC Engagement	AA	5/03/2016
Uniform Guidance	GV	3/18/2016
Q4 Current Accounting Topics Quarterly Update – 2015	AA	1/08/2016
Ethics for California CPAs	E	5/11/2015
Regulatory Update/Common Operational Defects and Financial Statements	AA	5/26/2015
FI – Mid Year Update for Financial Institution Auditors – 2015	AA	6/05/2015
Fraud CPE	FR	6/12/2015
Q2 Current Accounting Topics Quarterly Update – 2015	AA	7/14/2015
Q2 Emerging Topics in Auditing – 2015	AA	7/29/2015
Government Update	GV	7/23/2015
Q1 Emerging Topics in Auditing – 2015	GV	4/30/2015
Yellow Book	GV	5/04/2015
Introductory Accounting for Income Taxes	AA	5/07/2015
Student Financial Aid – Basic	GV	5/08/2015
Student Financial Aid – Advanced	GV	5/08/2015
Ethics for California CPAs	E	5/11/2015
Audit Year End Alert Update – 2014	AA	12/11/2014
Q3 Emerging Topics in Auditing – 2014	AA	10/17/2014
McGladrey Audit Training – Level 2 and 3 (Part 2)	AA	8/22/2014
McGladrey Audit Training – Level 2 and 3 (Part 1)	AA	8/15/2014
Introduction to Single Audit Webcast	GV	7/11/2014
Introduction to Government Auditing Standards (GAS) Webcast	GV	7/10/2014
CCH Accounting Research Manager (ARM) Training	AA	7/09/2014
FASB Updates	AA	5/21/2014

## Similar engagements with other government entities

Client Contact	Engagement Description	Total Hours	Engagement Partners
<b>City of Moreno Valley</b> Marshall Eyeman (951) 413-3021	Annual financial and compliance audit for inclusion in the City's CAFR prepared in conformance with the GASB 34 requirements, Single Audit (OMB A-133), State Controller's Report, Child Development Fund audit, management letter. <b>GFOA Award.</b>  Year: 2014-15	920	P. McBride Lead Partner C. Canieda QC Partner
<b>City of El Monte</b> Ernestine Jones (626) 580-2023	Annual financial and compliance audit, single audit, GANN Limit calculation, management letter, State Controller's Report, Report on Allocation of Costs to Enterprise Fund. <b>GFOA Award.</b>	804	P. McBride Lead Partner R. Martinez QC Partner
<b>City of Vernon</b> William Fox (323) 583-8811	Annual financial and compliance audit for inclusion in the City's CAFR prepared and in conformance with the GASB 34 requirements, Single Audit (OMB A-133), Vernon Light and Power, calculation of GANN Appropriations Limit, State Controller's Report, and Management letter.  Year: 2014-15	745	P. McBride Lead Partner R. Martinez QC Partner O. Chacon IT Partner
<b>City of Simi Valley</b> Jody Kershberg (805) 583-6725	Annual financial and compliance audit for inclusion in the City's CAFR prepared in conformance with the GASB 34 requirements, Single Audit (OMB A-133), calculation of GANN Appropriation Limit, Simi Valley Library compliance, Public Service Center for Sanitation and Waterworks compliance, Management letter. <b>GFOA Award.</b>  2014 to present	685	P. McBride Lead Partner C. Canieda QC Partner
<b>SunLine Transit Agency</b> Alton Hillis, Sr. (760) 343-3456	Annual financial and compliance audit, single audit of the SunLine Transit Agency; annual financial and compliance audit of SunLine Services Group; Agreed-upon procedures, enterprise resource planning system implementation consulting, management letter.  Year: 2015-16	488	R. Martinez Lead Partner P. McBride QC Partner O. Chacon IT Partner

## Specific Audit Approach

As part of any audit engagement, we leverage a formal project management methodology to help ensure that all tasks are planned effectively and ultimately completed on time, and that any changes in the schedule will be properly documented and authorized. As part of the planning process we will work with you to agree upon a communications plan that will set forth the protocols for periodic status updates and escalations throughout the project. Throughout the duration of the audit, we will provide regular status reporting consistent with the communications plan.

Embedded within your audit team are experienced project managers who have strong project management skills. These Vasquez team leaders will provide highly collaborative project management expertise and consultation to the City to help ensure that there are no surprises during the audit. Additionally, Vasquez will continuously look for ways to improve the management and execution of the audit. We want to ensure that audit planning, scheduling, and budgeting are executed properly and on a timely basis.

Vasquez's commitment is to be on-site at the City to perform supervision and workpaper reviews, and hold status meetings. Peggy McBride, as the lead audit partner, and Arlene Pingul, as the audit manager, will be on-site to perform their respective duties.

At each phase of our engagement, our client service standards guide us toward providing an exceptional customer experience – one in which we become a trusted adviser and bring innovative ideas and solutions that deliver value to you.

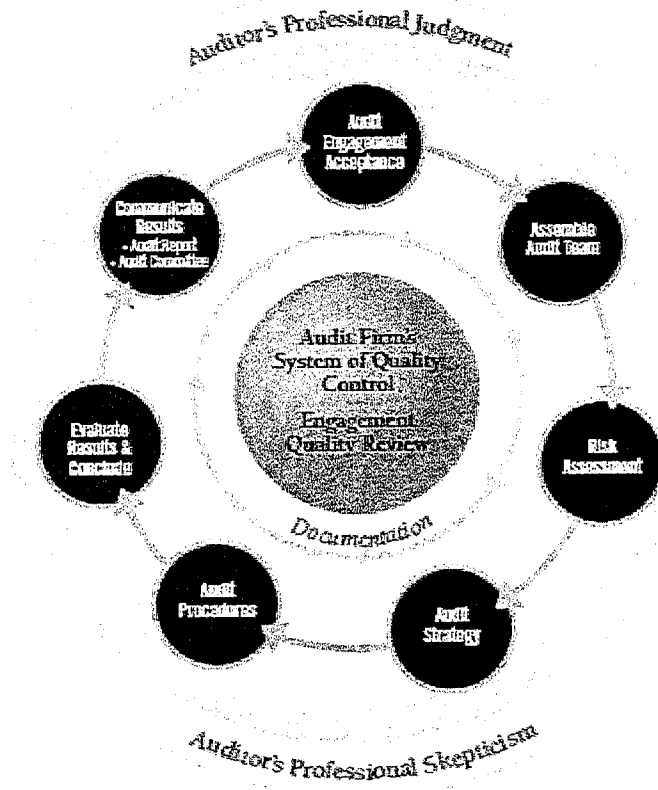
- **We understand.** Our audit and consulting professionals follow our CaseWare process, which provides us with a thorough understanding of your business, current situation, needs, and expectations to help ensure there will be no surprises at each phase of the engagement.
- **We communicate.** Our team is trained to communicate with consistent and open dialogue at the right time to the right people.
- **We collaborate.** We collaborate to bring together the right expertise to meet your needs, resolve emerging issues proactively, and bring innovative ideas and solutions that deliver value to you.
- **We deliver.** We deliver what we promise – on time, on budget, and with the highest quality.



At Vasquez we want to build strong relationships with our clients and continuously seek to understand ways in which we can ensure the services we are providing are in alignment with their needs. We believe it is important to strive for continuous improvement in the ways we interact with and deliver services to clients. We do this, in part, by adhering to defined client service standards and seeking feedback on our performance from our clients.

Every financial statement audit engagement presents a different set of challenges. No two organizations are the same and therefore we must tailor the audit to each organization based on the specific risks identified.





## Risk Assessment

The design of an effective audit plan depends on the audit team's ability to identify and assess the risk that the financial statements contain a material misstatement, whether caused by error or fraud. The risk assessment process will include:

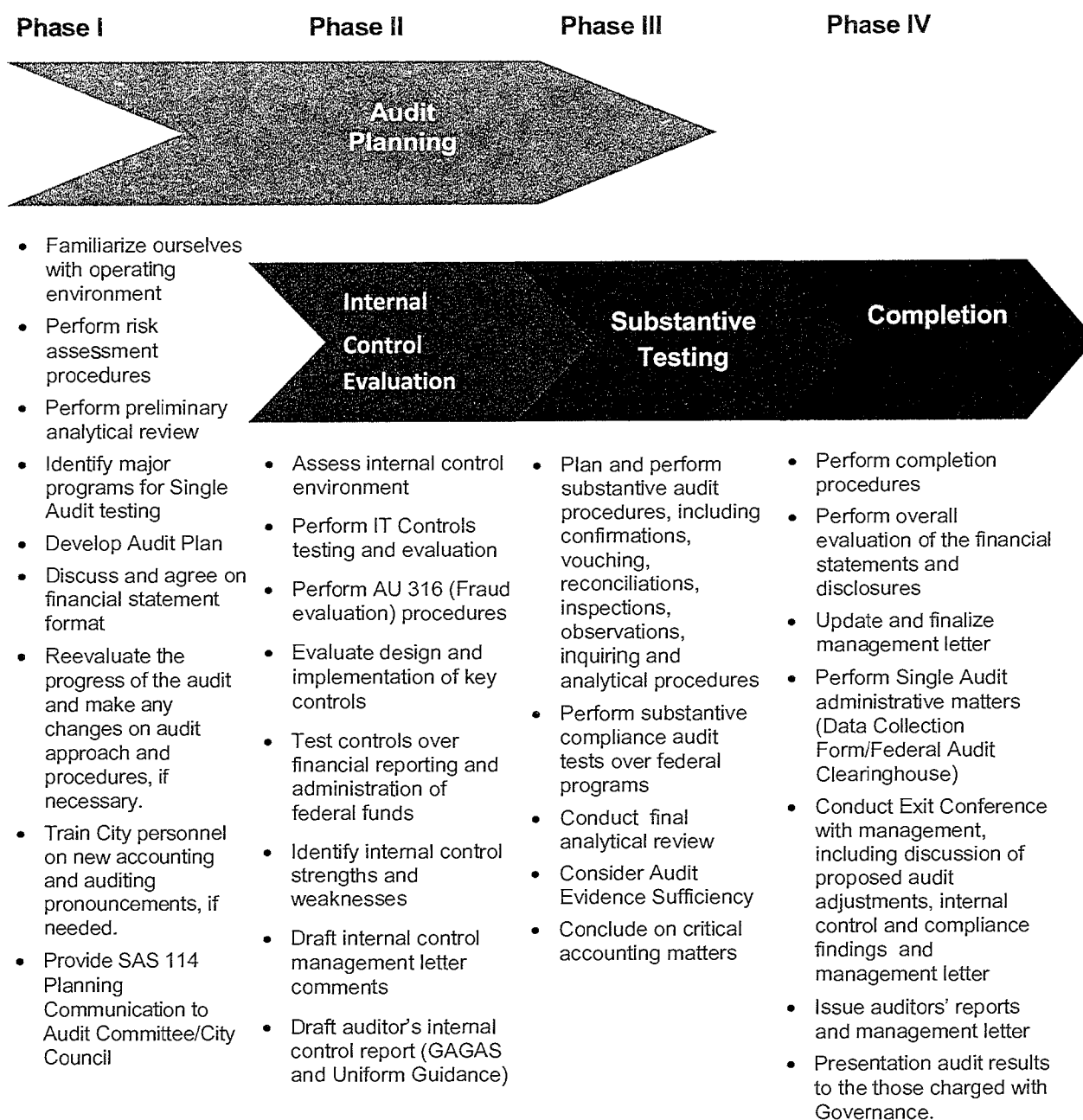
- Obtaining an understanding of the City, its component units and the environment in which they operate. This includes efforts to understand the events, conditions, and organizational activities that might reasonably be expected to have a significant effect on the risks of material misstatement. An understanding of the City and the environment will often involve consideration of such things as the regulatory environment, business objectives and strategies, and selection of and application of accounting principles.
- Considering information gathered during the engagement acceptance and continuance evaluation, including prior reports such as the Reviews of the Finance and Human Services Departments, audit planning activities, prior audits, and other non-audit engagements performed for the City.
- Inquiring of the audit committee, management, and others within the City about risks of material misstatement.
- Obtaining an understanding of the City's internal controls over financial reporting.
- Performing analytical procedures, such as a comparison of the City's current financial statement account balances to prior year financial statements and budgeted amounts and/or comparison of current relevant financial ratios to industry ratios or prior year ratios.

## Developing an Audit Strategy

In developing an audit strategy, we may decide to perform tests of the City's internal control over certain systems and processes. We assess the desirability of adopting such a strategy by considering factors such as cost/benefit considerations, volume of transactions, and prior year results of control testing. If test results indicate that a City's internal controls are effective, we may decide to reduce the level of substantive tests that it performs as a basis for its opinion.

### a. Proposed segmentation of the engagement.

We have summarized our planned audit approach and procedures below:



## Phase I – Audit Planning

The planning phase lays the foundation for the direction of our audit efforts. It encompasses the following steps:

- Conducting entrance conferences with the appropriate City management personnel. The agenda would include, but need not be limited to, the following:
  - The application of generally accepted accounting principles
  - Concerns of City management
  - Report requirements, refinements and deadlines
  - Initial audit approach and timing schedule
  - Assistance by City personnel
  - Establishment of principal contacts
  - Progress reporting process
  - Consideration of Fraud in a Financial Statement Audit
  - The auditors' responsibility for fraud prevention
  - Scheduling inquiries of management and others (including non-accounting personnel) about the risk of fraud
- We believe it is important for us to assist the City implement new accounting, auditing and compliance requirements. It is for that reason we intend to schedule training with City personnel involved in all phases of the audit for them to have a clear understanding of the latest technical changes for their respective areas as well as have a clear understanding of the audit requirements and timeline. The training will be provided live or in webcast format as desired.
- Expanding our understanding of the City and its operating environments. We will accomplish this by familiarizing ourselves and updating our knowledge of applicable background information pertinent to the City, its component units, their mission, funding sources and structure through our review of the following:
  - Applicable state legislation
  - The City's charter and Municipal Code
  - Organizational charts
  - Minutes of Council and Audit Committee meetings
  - Policies and procedures manuals, administrative codes, rules and regulations
  - Description of the City's financial and other information systems
  - Recent financial statements and key operating statistics
  - Reports of special audits by regulators or other auditors
  - Contracts and major commitments
  - Grant agreements
  - Significant operating agreements
  - Cost allocation plans
  - Possible effects on the City of the actions of regulatory agencies
  - Fraud risk assessment processes
  - Utility rate ordinances
  - Bond ordinances and offering statements
  - IT Strategic Plan
- Through our background knowledge of the City, and because of our fact-finding process, we will develop an in-depth understanding of the areas of concern. We will be in a position to meet

with the City management to discuss areas that might have a significant impact on the timing and completion of the audits or that may be of special concern to management. We will review such areas in-depth to obtain an early understanding and resolution of any "problem" areas that may impede our progress and to develop our overall approach so that the City will have sufficient time to develop the data necessary for completion of the audit with a minimum amount of disruption of the day-to-day routine.

Our planning process will include a specific review of computer activities performed by the City personnel in order to:

- Determine the organizational and operational controls over the data being processed, including, but not limited to: system development and maintenance controls, hardware controls and access controls
- Evaluate the degree of "control consciousness" among personnel
- Determine the potential impact of general control strengths and weaknesses
- Consider the possibility of management override of controls.

Our principal sources of information for this review will be interviews with responsible accounting and computer operations personnel, reviews of program documentation for the City's system, as well as direct observations made by our audit team.

- The audit team will use our analytical review techniques to identify other areas that may require attention. Until the year-end account balances are finalized, our review will focus on budgets compared to actual/projected information. We can thus identify sensitive areas to determine whether they are indeed areas requiring extra attention. We will also focus on unusual fluctuations occurring within individual funds to identify accounts and areas which merit further investigation.
- Based on our understanding of the City's operating environment, through our analytical review and other planning procedures, we will meet with City personnel to highlight areas to be emphasized during the audit. We will concentrate our efforts on the identified areas of audit concern and areas that we know to be important to City management. Some of our preliminary audit concerns are elaborated as follows:
  - Compliance with applicable laws, regulations and reporting requirements
  - Receipt of all revenue to which the City is entitled
  - Purchase authorizations within budgetary limitations
  - Adequate safeguarding of City cash, investments and inventory assets
- We will work directly with the appropriate City personnel to discuss the financial statements and footnotes, in accordance with all authoritative accounting systems and interpretations. Accordingly, we will meet to discuss and agree upon the format for the individual and general purpose financial statements and any additional requirements that may be relevant because of recent or pending professional pronouncements. (See "Phase IV - Completion" for a more in-depth discussion of our financial reporting capabilities.)

### Interim audit testing

Our audit approach is flexible and can be tailored to fit the evolving needs of the City. We will work with you to review the current audit schedule to determine the best approach for the various phases of the financial statement audit. We provide you the option of interim audit effort or after year-end. There are several advantages to performing interim testing, such as:

- It shifts the timing of our testing into less busy periods of the year for your staff and for our staff.
- It allows us to focus on the high-risk areas before the year-end close, which provides more time to deal with issues, if any.

- It affords us the opportunity to judge the quality of the interim period, rather than solely year-end, financial statement information and cut-offs which allows more opportunity for us to identify and for the City to implement best practices over internal controls and processes.

Clearly there are advantages to performing interim audit testing and, as we stated previously, we will work with you to determine the best approach, and you will control this process.

## **Phase II – Control Evaluation**

The steps included in this phase are as follows:

- See IT Control Evaluation beginning on page 39.
- Our systems evaluation approach enables us to obtain a better understanding of the various transaction cycles and sub-cycles and how they relate to each other. By using narrative and flowcharting techniques for each cycle, we will identify the critical points in the flow of financial information. Our basic technique begins with information contained in the financial statements and traces such information back to source data. This process is infinitely superior to the traditional tedious method of going from source data to the financial statements.
- We will evaluate the effectiveness of the control design by identifying the strengths and weaknesses in each of the transaction sub-cycles and sub-audit areas that have a bearing on the audit objectives. This identification of internal control strengths and weaknesses will enable the audit team to determine the emphasis to be placed on audit testing. It will also serve as a basis for the development of conclusions and recommendations regarding weaknesses in the systems of internal accounting controls and opportunities for improving efficiency and effectiveness.
- Our engagement service team will prepare a tailored audit program unique to the City based upon the identification of internal control strengths and weaknesses and the result of our risk assessment. Our audit programs are tailored into a unique, efficient and effective document addressing the audit objectives, issues, and systems of the City.
- We will inquire of management and others (including non-accounting personnel) regarding their perception of fraud risks and their knowledge of systems and techniques in place to manage and mitigate those risks.
- Our engagement team will discuss and consider the susceptibility of financial statement to fraud and to emphasize professional skepticism. We will obtain information necessary to identify risks of material misstatement due to fraud. We will identify risks that may result in material misstatement due to fraud. We will assess the identified risks after considering an evaluation of the antifraud programs and controls. We will respond to the identified risks.
- We will test transaction cycles using statistical and judgmental sampling methodologies to determine whether the necessary control procedures are prescribed and followed satisfactorily. In addition, if there are any deviations in our sample selection, we will expand the sample size and if the additional sample confirms the deviation problem, we will use statistical techniques to extrapolate the dollar value of the deviation where appropriate.
- We will obtain reasonable assurance that controls are functioning properly through observation, inquiry and inspection of documents and records.
- For the items tested, we will identify any failures to execute control procedures and prepare an initial management letter recommendation or internal control finding. In addition to documenting the condition and criteria, we will develop the cause and effect, and propose a recommendation.
- We will communicate and review the initial management letter comments and findings with management of the City.

- We will provide periodic written progress reports on the planning and test work performed during the planning and interim fieldwork phases and discuss the schedule to complete the audits in the most economical manner.

### **Phase III – Substantive Testing**

Sampling is one of the methods we use to obtain efficiency in the audit process. In designing and implementing a sampling plan, we consider the specific audit objective to be achieved and determine that the audit procedures to be applied will achieve that objective. We will:

- Define the objective of the test.
- Define the population to be sampled, the element of the population to be examined (sampling unit) and what an error is.
- Determine which sampling technique is most appropriate.
- Determine an appropriate sample size and select a sample that is intended to be representative of the population.
- Examine each sample item to determine whether it represents an error or exception.

Substantive Testing – The purpose of the substantive tests is to provide reasonable assurance of the validity of the information produced by the accounting system. These tests will include various detail tests, such as inspection of underlying source documents, confirmations, and reconciliations. We will also perform analytical procedures, including ratio analysis, comparisons of actual-to-budget information and other procedures. Specifically, tests that we have found to be effective and efficient for City audits include tests such as confirmation of cash, investments, grants receivable, loan balances and debt; tests of subsequent receipts for selected receivables and unrecorded liabilities for payables.

Analytical Review Procedures – Analytical review procedures, consisting of statistical, ratio and trend analyses are performed during every phase of the audit, from planning to reporting. These analytical testing techniques provide feedback on potential areas of audit concern as well as provide comfort concerning the overall reasonableness of the financial statements. Analytical procedures are especially helpful when analyzing utility operations and receivables.

Consideration of Fraud – The primary responsibility for the prevention and detection of fraud rests with those charged with governance and with management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior, which can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. As part of our audit planning process, we will perform procedures to obtain information that will be used for identifying the risks of material misstatement due to fraud, such the following:

- Discussions with management and others within the City. These discussions would focus on obtaining an understanding of management's: (a) assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent, and frequency of such assessments; (b) process for identifying, responding to, and monitoring the risks of fraud in the City, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (c) communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the City; and (d) communication, if any, to employees regarding its views on business practices and ethical behavior. We will also make inquiries of management, and others within the City as appropriate,

to determine whether they have knowledge of any actual, suspected, or alleged fraud affecting the City.

- Discussions with those charged with governance. We will obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the City and the internal control that management has established to mitigate these risks.
- Evaluation of unusual or unexpected relationships identified. Unusual or unexpected relationships, variances or balances that we may identify during our preliminary analytical review procedures will be evaluated for indication of risks of material misstatement due to fraud.
- Discussions among our audit team members. This discussion will involve an exchange of ideas or brainstorming among our audit team members about how and where the City's financial statements might be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the City could be misappropriated.

Adjusting Journal Entries – Adjusting journal entries proposed by our auditors, if any, will be discussed and explained to the Administrative Services Director and others as appropriate. It is our practice to discuss issues and proposed audit entries with the program manager or management personnel immediately responsible for the program to ensure that we have not misunderstood that particular situation. This will ensure that the proposed entry or management comment and recommendation are accepted by the immediate manager in charge, and will ensure that the recommendation is feasible and makes business sense. It is also our policy to address issues and resolve them as they arise, rather than at the end of the audit. In short, there will not be any surprises.

The final element in our work plan is the continual reporting to City management personnel in order to apprise them of our progress. We believe communication is vital. We have stressed the importance of continuous close relationships throughout this proposal and have indicated the various points where we will meet for specific discussions and decisions.

#### **Phase IV – Completion**

The last phase of our audit involves preparation of the Independent Auditors' Reports and management letter comments. Because of our emphasis on early problem resolution and ongoing communication throughout the audit, the reporting phase will be mainly concerned with reviewing the fair presentation of the final numbers that will appear in the annual financial reports.

All audit engagements are reviewed by a quality control partner not otherwise associated with the engagements. Prior to commencement of fieldwork and as the engagement progresses toward completion, the quality control partner will aid the engagement partner and the audit team in resolving difficult accounting, auditing and reporting issues. Upon completion of the partner review and before release of the report, the quality control partner will review the financial statements, our report thereon, our auditor's report on internal control and compliance, and any other special reports or letters to be issued.

#### Management letter

At the completion of our audit, separate from any significant internal control deficiencies or items of noncompliance we may have identified and included in the respective auditors' reports, we will also provide our comments and observations for improvements to operating, accounting and business practices. The diverse experience of our personnel, the fresh perspectives of our team members, combined with their independent and objective viewpoints will likely yield valuable information. The findings and other comments will contain, as warranted and appropriate:

- Specific recommendations for improvement of the accounting practices and procedures and the internal accounting and administrative controls.
- Comments on the design, controls and audit trails of new and redesigned automated systems, along with suggestions to improve processing methods and procedures.

- Suggestions for operational improvements or cost efficiencies noted during the course of our examination.
- Comments relative to ensuring compliance with the applicable laws, rules and regulations, including Office of Management and Budget (OMB) and U.S. Government Accountability Office (GAO) guidance and regulations.
- Comments regarding implementation of the new GASB pronouncements.
- Other comments, recommendations or observations regarding best practices that we believe may be of interest.

## Information Systems Controls

Understanding how key systems and processes contribute to your overall processing environment and affect the reliability of financial information is a primary element of our audit approach. Our objective is to assess whether the standards of security, integrity, continuity and control are conducive to reliable processing, consistent with the City's technology standards and appropriate to safeguard your information assets.

### IT general controls

IT general controls are pervasive controls within the IT environment. The following types of IT general controls are typically addressed in our audit approach:

- **Logical security (access to programs and data)**—includes the components of management governance over Information Technology (policies and procedures, monitoring), application configuration (passwords, service accounts, super users, user identification/authentication), and security of the physical assets.
- **Change control management**—assesses program changes (upgrades, service patches, source code) moved into the production environment and the processes applied to ensure the appropriate initiation, authorization, segregation, testing and approval are evident.
- **Data backup and recovery**—reviews that the data backup process and ability to recover data for the financially significant applications, databases, spreadsheets and operating systems for the given opinion period are complete, tested and maintained, including the handling of errors.
- **Job processing**—tests for the completeness of data interfacing into the financially significant applications and the change management processes for handling errors, script changes and interface edits.
- **Security administration**—addresses the user access provisioning (new hire on-boarding, position/role changes, employee separation) for the financially significant applications, databases, spreadsheets and operating systems, along with management's review of access for completeness, segregation of responsibilities and accuracy.

### IT application controls

IT application controls apply to the business processes they support. These controls are embedded within the software applications to prevent or detect unauthorized transactions. When combined with manual controls, application controls verify completeness, accuracy, authorization and validity of processing transactions. Our methodology for assessing application controls is as follows:

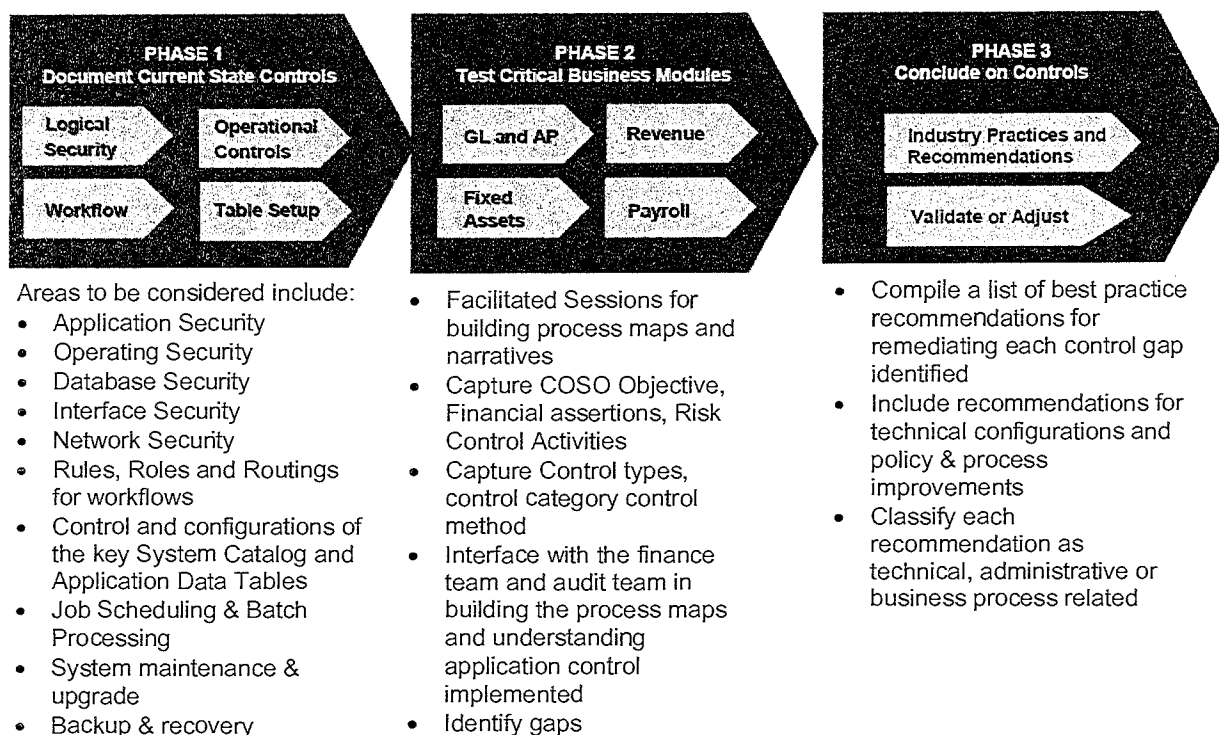
- Define materiality by system, such as utility billing, cashiering, purchasing and disbursements, revenues, payroll and asset management, using business process mapping as a starting point.
- Map various transaction types to clearly identify key controls and determine if the control is an application control or a manual control.
- Utilize our proprietary questionnaires to help verify and test various types of automated controls.



- Through inquiry, review of written policies and procedures, and on-site testing, evaluate application security controls, which are controls to verify that minimum access to applications is allowed for individuals to perform their job.
- Through inquiry, review of written policies and procedures, and on-site testing, evaluate input controls which ensure that transactions are initially recorded, entered and accepted by the application accurately and completely.
- By developing and testing a sample of transactions, evaluate processing controls, which ensure that transactions are processed by the application programs accurately and completely.
- Through inquiry and review of written policies and procedures, evaluate output controls, which ensure that output is complete and is delivered (standard or customized) to the appropriate parties in an appropriate manner.
- Through inquiry, review of written policies and procedures and tests of a sample of transactions, evaluate interface controls, which ensure that transactions between multiple systems are secure and integrity of the information transmitted is maintained, accurate and complete.

### IT Systems Review

In addition to the previous page, we will document our understanding of specific elements related to the City's key applications. The following graph illustrates our approach:



In summary, our IT-focused team will utilize its in-depth risk and controls knowledge and experience to identify and assess key controls and comment on opportunities to enhance the benefits available from the system, using efficient and effective testing approaches.

### **Significant Accounts or Classes of Transactions**

Grant Accounting – the City receives a significant amount of grants from the State and Federal governments. Accounting for the various types of grants can be complex, since the City has multiple programs administered in a decentralized environment. In conjunction with our Single Audit testing, we

will select a sample of grant awards for the year, read the grant agreement and determine if the receivables, revenues and resulting net assets are recorded in accordance with GASB Statements.

Claims and Judgments – Because the City is self-insured for its risks of loss, we will obtain an understanding of the process the City uses to determine and measure all known risks, and report them in the financial statements. Our analysis will also include the estimate of incurred but not reported claims. We will perform a retrospective review of prior estimates to determine if there appears to be bias in the development of these estimates. A RSM professional liability actuary assists the engagement team in assessing the qualifications of actuaries used by clients, actuarial assumptions used, and the reasonableness of valuation methodologies.

Pension and Other Post-employment Benefits – Vasquez has access to actuaries who assist the engagement team with reviewing the reputation and qualifications of actuaries used by clients, actuarial assumptions used, and the overall valuations. We review the reports provided by CalPERS and perform census testing required by GASB 68. Additionally, we will test the information provided to the various actuaries to ensure it reflects current and complete data.

Personnel Services Expenses – We will select individual payroll transactions for testing monetary accuracy and compliance with key controls. Control characteristics which will be tested include:

- Accuracy of initial payroll information
- Supervisory approval of payroll transactions
- Payroll department's audit of payroll change notices
- Proper distribution of checks to employees
- Labor distribution into the payroll files for the classification and accumulation of payroll changes to the various departments
- Hours charged or allocated to federal programs were accurate
- Personnel files are properly documented and employee classified as the department and fund

Revenues – Our test of revenues will focus on the key controls to ensure that:

- All revenues received or susceptible to accrual have been recorded in the appropriate amount
- Revenues are recorded in the proper accounts and funds
- Revenues are recorded in the appropriate fiscal period
- Revenue transactions are in compliance with policies and procedures
- Accruals have been properly captured, recorded and revised in the following year

Expenditures – We will test transactions to ensure that they were:

- Administered in accordance with the new Uniform Guidance, particularly with respect to subrecipient risk assessment and monitoring, procurement and time reporting
- Properly authorized
- Monetarily accurate
- Properly classified
- In compliance with the City policies and control procedures

Regarding federally funded expenditures, the audit tests will be designed to determine whether charges to federal and state awards:

- Were necessary and reasonable for the proper administration of the program
- Conformed to any limitations or exclusions in the award
- Were given consistent accounting treatment and applied uniformly to both federally-assisted and other recipient activities
- Were net of applicable credits
- Did not include costs properly chargeable to other federally-assisted programs

- Were properly recorded (i.e., correct amount, date) and supported by source documentation
- Were approved in advance, if subject to prior approval
- Were incurred in accordance with the competitive purchasing procedures
- Were allocated equitable to benefiting activities, including nonfederal activities

Other Than Personnel Services Expenditures – We will test transactions to ensure that they were:

- Properly authorized
- Monetarily accurate
- Properly classified
- In compliance with department and City control procedures

Cash – Our audit procedures will include:

- Assess security over cash on hand
- Confirmation of balances with financial institutions
- Review of bank reconciliations with detail tests of selected reconciliation items
- Detail tests of selections from subsequent bank statements
- Proper financial statement disclosure, including restrictions on cash accounts
- Proper security (FDIC insurance, collateral) over cash balances

Investments – Our audit procedures will include:

- Review Investment Policy and oversight process
- Assess asset allocation, hiring of advisors, authorizations for sales and purchases
- Derivatives – confirm activities, test existence, valuation and disclosures
- Confirmation of investments held by custodians
- Confirmation of alternative investments with fund managers, when applicable
- Examination of agreements with investment managers and investment policies
- Fair value testing
- Detail and analytical tests of investment income and unrealized and realized gains and losses
- Alternative investments – confirm balances, review contracts, partnership/operating agreements, and investment reports; assess reasonableness of valuations, review external audit reports.
- Fee and investment expense testing
- Proper breakout between cash equivalents and investments
- Review of compliance of overall portfolio with City policies and guidelines and State statutes

Receivables – Our audit procedures will include:

- Examination of reconciliation to ledger and sub ledger and tests of reconciling items
- Analytical review of significant fluctuations in account balances
- Confirmation of balances, as practical
- Detail tests of subsequent cash receipts for selections
- Analytical tests of aging analysis and reserve requirements
- Tests of accounts receivable allowances through independent estimates using historical reimbursement and write-off experience
- Detail testing of accrued income receivable

- Review detail for transactions with related parties, credit balances, etc.
- Examine revenue recognition policies
- Ensure proper financial statement disclosure

Capital Assets – Our procedures for the audit of capital assets will be based on the manner in which the City manages its capital assets, rather than based on the manner in which the City accounts for those transactions and activities. We will also ensure that adequate procedures are performed related to the activity and balances in each of those opinion units with material capital assets-related transactions. Our audit procedures could include:

- Review of underlying documentation (such as, statutes and regulations, governing board minutes, grant contracts, and contracts to lease or sell capital assets) and inquiry of management to determine any legal and contractual provisions relating to capital assets and related accounts that could have a direct and material effect on the determination of financial statement amounts.
- Analytical review of construction work-in-progress to identify projects that have been completed and need to be placed in service and depreciated or projects that may have been abandoned and need to be evaluated for impairment.
- Comparison of budgeted and actual capital outlays for the period and investigate significant variances.
- Determination whether the City has satisfactory title to capital assets or other evidence supporting the reporting of infrastructure assets and certain intangible assets (patents, copyrights, and trademarks), whether any liens exist, or whether any capital assets have been pledged.
- Evaluation of whether depreciation expense is properly charged to the various functions.
- Evaluation of whether capital asset impairments have been properly reported.
- Evaluation of whether transfers of capital assets and related debt between funds, component units, and other entities have been properly reported.
- If eligible infrastructure assets are accounted for using the modified approach, a determination of whether the asset management system and the documentation of the condition of the assets comply with the standards in GASB Statement No. 34, as amended,
- Review of financial statement disclosures for capital assets and related accounts.

Deferred Outflows and Deferred Inflows

- Examine supporting documentation for deferred outflows and deferred inflows to determine proper calculation and reporting
- Evaluate for proper financial statement disclosures

Accounts Payable and Accrued Expenses – Our audit procedures will include:

- Analytical review of significant fluctuations in account balances
- Tests of management's methodology and assumptions
- Subsequent disbursements testing
- Test of reconciliation between ledger and sub ledger and test of reconciliation items
- Examination of detail for credit balances, related party transactions, aging, etc.
- Comparison of prior year estimates against actual to assess adequacy of prior year reserves.

Debt – Our audit procedures will include:

- Confirmation of balances with financial institutions and other debtors
- Comparison of roll forward to ledger and agreements
- Testing for compliance with debt covenants
- Proper accounting for swap agreements
- Recalculation of carrying amount of loans
- Testing of capital lease agreements

- Analytical and detail tests of interest expense and accrued interest
- Examination of classification and detail testing of activity
- Proper financial statement disclosure

Net Position – Our audit procedures will include:

- Proper financial statement disclosures including net position and fund balance classifications

**b. Level of staff and number of hours to be assigned to each proposed segment of the engagement;**

Personnel Category	City Audit	Single Audit	GANN	SCR	TOT	UUT	Foundation	Total Hours
Partners	33	4	1	-	12	3	3	56
Manager	112	5	1	10	32	8	8	176
Senior	114	16	2	-	96	24	16	268
Staff	206	40	2	32	-	-	40	320
Total	465	65	6	42	140	35	67	820

**c. Sample size and the extent to which statistical sampling is to be used in this engagement;**

We will test transaction cycles using statistical and judgmental sampling methodologies to determine whether the necessary control procedures as prescribed are followed satisfactorily. For single audit purposes, we will also use sampling methodologies in our test of operating effectiveness of controls over compliance and test of transactions to determine compliance with specific applicable OMB compliance requirements. The sample size will range from 10 items to 60 items, depending on how we assess control audit risk and audit detection risk.

In addition, if there are any deviations in our sample selection, we will expand the sample size and if the additional sample confirms the deviation problem, we will use statistical techniques to extrapolate the dollar value of the deviation.

**d. Type and extent of analytical procedures to be used in the engagement;**

Analytical review techniques will be utilized to identify other areas that might require attention. Until the year-end account balances are finalized, our review will focus on budgets compared to actual/projected information. We can thus, identify certain sensitive areas to determine whether they are indeed areas requiring extra attention. We will also focus on unusual fluctuations occurring within individual funds to identify accounts and areas which merit further investigation.

Based on our understanding of the City's operating environment, through our analytical review and other planning procedures, we will meet with the City personnel to highlight areas to be emphasized during the audit. We will concentrate our efforts on the identified areas of audit concern and areas we know are important to the City Officials. Some of our preliminary audit concerns are elaborated as follows:

- Compliance with applicable laws, regulations and reporting requirements
- All matters of compliance with GASB statements and interpretations
- Receipt of all revenue to which the City is entitled
- Purchases are authorized and within budgetary limitations
- Encumbrances and liabilities are recorded and charged to proper budgetary accounts
- Proper accounting and disclosure of developer agreements and similar commitments
- Proper accounting for fixed assets including infrastructure assets
- Proper recording of outstanding obligations

- For the utilities, we will consider ratios of water pumped/purchased to water sold and utility customer revenues compared to production costs.

**e. Approach to be taken to gain and document an understanding of the City's internal control structure;**

To gain and document our understanding of the City's internal control structure, we will review the City's policies and procedures, meet with appropriate management personnel to ascertain actual operation of policies and procedures and carry out compliance tests to document internal control strengths and weaknesses. In reviewing controls over EDP systems emphasis would be placed on the following:

- Determination of the organizational and operational controls over the data being processed including but not limited to, system development and maintenance controls, hardware controls, and access controls
- Evaluation of the degree of "control consciousness" among personnel
- Determination of the potential impact of general control strengths and weaknesses
- Consideration of the possibility of management override of controls

**f. Approach to be taken in determining laws and regulations that will be subject to audit test work; and**

An audit performed in accordance with *Government Auditing Standards* require auditors to report on City's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. Accordingly, we will test the City's compliance with certain regulations such as compliance with budget preparation and budgetary requirements, investments reporting, and compliance with other contracts such as bond covenants, and grant agreements.

Single Audit Approach

We will consider the requirements of the new Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Award (Uniform Guidance) when performing all Single Audit test work. This means we will coordinate the Single Audit testing of major federal programs with the testing of internal controls and systems in conjunction with the financial statement audit. Each major program requires a separate opinion on compliance with federal rules and regulations. The scope of our testing will be sufficient and specific enough to allow opinions on each of the City's major programs. We will perform risk assessment procedures including:

- Review of prior years' reported findings, and
- Consideration of the extent of continuing or new personnel assigned to administer each major federal program.

Our procedures for testing major federal programs will be performed as follows:

- Review the inventory of grants and other federal and state assistance
- Hold a planning meeting with the accounting managers and grant administrators
- Make a preliminary assessment of the condition of the records and controls and determine the procedures necessary to more fully document the systems
- Obtain copies of the grant agreements under which federal financial assistance is provided
- Document any program-specific compliance requirements contained in the agreements beyond those included in the OMB Compliance Supplement
- Review reports completed to meet the federal financial reporting requirement
- Document our understanding of program requirements, and other laws and regulations
- Establish detailed work plans, and audit timetables in conjunction with management
- Schedule regular status meetings to monitor the audit process
- Test the completeness and accuracy of the schedule of expenditures of federal awards

- Examine any external, state and federal audit reports for control weaknesses, compliance exceptions or questioned costs

**g. Approach to be taken in drawing audit samples for purposes of tests of compliance**

Statistical sampling is most often employed in our compliance testing procedures during the Single Audit. The extent of testing and sampling depends on many factors, including environmental controls, complexity of the program, previous audits findings, changes in federal statutes, and the number of locations at which controls are administered. Our sampling plan will be in conformity with the AICPA's guidance for testing compliance. The number of sample sizes will depend on the assessment of controls and inherent risk of noncompliance in a major program.

## Identification of Anticipated Potential Audit Problems

Critical Audit Area	Background and Audit Considerations
<b>Financial Reporting</b>	<p><b>Background.</b> Governments have unique requirements for financial reporting—that is, how they present information in their entity-wide financial statements, fund financial statements, notes to those financial statements and other required supplementary information.</p> <p><b>Audit Considerations.</b> We will work closely with management to ensure we understand and evaluate the controls in place over the financial reporting process. We will perform a materiality calculation to highlight accounts that are considered material at the financial statement level. We will perform a major fund determination at the planning and final stage of the audit to ensure that all funds are reported in compliance with the reporting standards. We will analyze potential component units to determine the nature of their reporting in the comprehensive annual financial report. We will evaluate and review the government's control process and entries involved in the conversion from the fund level to the entity-wide level in compliance with GASB 34. We will advise the City of potential areas for consideration as to modifications or new disclosures.</p>
<b>Financial Instruments</b>	<p><b>Background.</b> Governments have certain unique requirements that apply to their financial instruments including cash, investments such as structured notes, asset-back securities and derivative instruments.</p> <p><b>Audit Considerations.</b> We will work with management to gain a full understanding of the controls and procedures in place over the cash and investments cycle. We will review the City's investment policy to gain an understanding of the City's investment objectives. To ensure all financial instruments are recorded on the books, we will confirm cash and investment balances from outside third parties. We will consider the adequacy of financial statement disclosures and fair value measurements for conformance with GASB pronouncements and transparency to users of the financial statements.</p>
<b>Revenues and Receivables</b>	<p><b>Background.</b> Governments have a variety of revenue and receivable sources that play a significant role in their operations.</p> <p><b>Audit Considerations.</b> We will work with management to gain a full understanding of the controls and procedures in place over the revenues and receivable cycles. We will devise our procedures to ensure that reported revenues represent amounts relating to the period and pertain to the government and revenue transactions and events have been recorded in the correct accounting period and proper accounts. Our tests will include consideration that the reported receivables represent amounts uncollected as of the end of the period, that for grants, the related events have occurred that entitle the City to the related revenue, and receivables are reported at the proper amounts. We will analytically review revenues from budget as well as prior period to identify plausible trends. We will confirm certain receivables (property and certain other taxes, grants, shared revenues) and perform a search of unrecorded revenues by analyzing receipts subsequent to year end.</p>
<b>Capital Assets</b>	<p><b>Background.</b> Governments usually acquire general capital assets with the resources of the general, special revenue, capital projects, and enterprise funds. A government's budgeting policies usually affect how the government</p>



Critical Audit Area	Background and Audit Considerations
	<p>finances and accounts for general capital asset acquisitions of different sizes and types.</p> <p><b>Audit Considerations.</b> We will gain an understanding of the controls and procedures in place regarding capital assets. We will review the entity's capital asset policy to ensure the controls in place are in compliance with the prescribed policy. We will consider our tests of construction activity and capital assets inventory controls to support our evaluation of capital asset balances. We will devise our procedures to ensure reported capital expenditures and depreciation and amortization expense represent amounts relating to the period and pertain to the government, have been recorded in the proper accounts and in the correct accounting period. We will evaluate the calculations of any capitalized interest/allowance for funds used during construction.</p>
<p><b>Expenditures and Liabilities</b></p>	<p><b>Background.</b> Expenditures and liabilities represent outflows of resources from the government. Many resource outflows are reported based primarily on events or transactions that require cash disbursements during the current period or shortly thereafter; examples are payroll, rent, utilities etc. Other resource outflows are reported based primarily on known or estimated future-period cash disbursements; examples are compensated absences, and claims and judgments, etc.</p> <p><b>Audit Considerations.</b> We will gain an understanding of the controls and procedures in place relating to the purchasing and cash disbursements cycle. We will devise our procedures to ensure reported expenditures represent amounts relating to the period and pertain to the government, expenditures have been recorded in the proper accounts and correct accounting period. We will devise our procedures to ensure reported liabilities represent amounts unpaid as of the end of the period, the financial statements report all liabilities as of the end of the period and liabilities are reported at the appropriate amounts. We will agree selected liabilities to detail ledgers, such as lists of outstanding debt, and to subsequent payments, and we will review subsequent payments to help identify unrecorded liabilities.</p>

## New GASB Statements

The Governmental Accounting Standards Board (GASB) has issued new pronouncements that may impact the City's future financial reporting and presentations. Vasquez provides assistance in determining the impact on the implementation of the following statements may have on the City's financial statements:

**GASB No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.** The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016.

**GASB No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016

**GASB No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.** The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017.

**GASB No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.** The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the abatements have on a government's financial position and economic condition. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015.

**GASB No. 77 - Tax Abatement Disclosures.** The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2015.

**GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.** This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

**GASB Statement No. 79, Certain External Investment Pools and Pool Participants.** Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for some provisions which are effective for reporting periods beginning after December 15, 2015..

**GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.** The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

**GASB Statement No. 81, Irrevocable Split-Interest Agreements.** This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present

service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements for this Statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. Earlier application is encouraged.

**GASB Statement No. 82, Pension Issues** - an amendment of GASB Statement NO. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of Statement for the selection of assumptions in a circumstance in which an employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

**GASB Statement No. 83, Certain Asset Retirement Obligations** – establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. Effective for reporting periods beginning after June 15, 2018.

**GASB Statement No. 84, Fiduciary Activities** – establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Effective for reporting periods beginning after December 15, 2018.