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AGENDA REPORT
Business | Action

May 3, 2021

TO: Commissioners

FROM: Keene Simonds, Executive Officer
Ruth Arellano, Executive Assistant
Erica Blom, Administrative Assistant

SUBJECT: **Outside Audit Report on Fiscal Year 2019-2020**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will review an outside audit prepared by R.J. Ricciardi (San Rafael) for the financial statements issued for 2019-2020. The audit concludes all tested transactions were accompanied by sufficient documentation and no material weaknesses were identified. The audited fund balance finished at $1,629,738 and reflects a year-end improvement of $141,505 or 9.5% from the prior fiscal year and the result of an operating surplus attributed to additional application fees. The audit and accompanying management letter are being presented to the Commission to accept and file as well as to provide direction to the Executive Officer on related matters going forward.

BACKGROUND

Accounting Procedures

San Diego LAFCO's financial transactions are managed by the Executive Officer and divided between maintaining accounts with the County of San Diego and San Diego County Credit Union. Accounts with the County serve as the primary depository for the fund balance and used for most receivable/payable transactions. LAFCO maintains these accounts through a County issued PeopleSoft license via the Auditor-Controller's Office. An account with the San

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Diego County Credit Union is separately used to cover relatively small and/or time sensitive transactions and provides LAFCO access to its own credit line. Transactions within this account are maintained through QuickBooks. Management of all LAFCO accounts is also aided through a contract with Leaf and Cole LLP (San Diego) to provide monthly bookkeeping and reconciliation services.[1]

DISCUSSION

This item is for San Diego LAFCO to review an outside audit prepared by R.J. Ricciardi on the financial statements prepared by staff for 20219-2020. The report is part of the adopted workplan and accompanied by a management letter to the Commission addressing R.J. Ricciardi findings with respect to compliance and internal controls. A summary of key items drawn from the audit follow and further detailed in the management and analysis section and/or in the accompanying management letter.

- LAFCO finished 2019-2020 with a total audited fund balance of $1,629,738; a change over the prior fiscal year of $141,505 or 9.5% and the result of a net operating surplus. The ending fund balance is entirely unrestricted with $954,738 unassigned.

- LAFCO's audited net position at the end of 2019-2020 – which includes all pension liabilities consistent with Government Accounting Standard Board Guidelines No. 67 and 68 – totaled $217,246 and represents a change of 11.9%.

- No adjustments were necessitated as a result of the audit process.

- The management letter notes one of two recommended improvements observed in the prior fiscal year audit have been implemented and involves the Executive Officer initialing all bank and credit card statements. The other earlier recommendation – establishing an accounting and fraud prevention manual – has not been implemented. No new recommendations have been identified as part of this audit.

ANALYSIS

The outside audit and accompanying management letter from R.J. Ricciardi affirmatively attest San Diego LAFCO's financial statements accurately reflect the Commission's financial position for 2019-2020. It also attests no material weaknesses and/or omissions were identified in LAFCO's accounting records for the fiscal year. Overall, the Commission experienced a notable improvement in its audited fund balance of nearly 10% from $1,488,233 to $1,629,738. This improvement is largely attributed to the implementation of a new fee schedule and the surplus of additional application fees. Staff separately recognizes the value in implementing the remaining recommendation from the 2018-2019 audit to develop a

[1] San Diego LAFCO amended its fiscal policies in March 2009 to establish an annual outside audit process. Davis Farr (Irvine) prepared the first outside audit covering 2008-2009 and proceeded to prepare annual audits thereafter through 2017-2018. The Commission transitioned outside auditing services to R.J. Ricciardi beginning with 2018-2019.

procedures manual to formally guide accounting activities. Work on this recommendation, however, remains paused due to COVID and limitations therein to coordinate with the County of San Diego Auditor-Controller's Office given its financial interties with the Commission.

RECOMMENDATION

It is recommended San Diego LAFCO formally receive and accept the outside audit and associated management letter for 2019-2020 and provide any direction to staff going forward. This recommendation is provided as Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO through a single motion:

Alternative One (recommended):
Receive and accept the audit report and accompanying management letter for 2019-2020 with any related direction going forward.

Alternative Two:
Continue the item to the next regular meeting and provide direction to staff for additional information as needed.

PROCEDURES

This item has been placed on the agenda for action as part of San Diego LAFCO's business calendar. The following procedures, accordingly, are recommended.

1) Receive verbal report from staff unless waived.
2) Commission discussion.
3) Consider the staff recommendation.

On behalf of staff,



Keene Simonds
Executive Officer

Attachments:

1) Audit Management Letter
2) Outside Audit for 2019-2020

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SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

SAN DIEGO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Commissioners
San Diego Local Agency Formation Commission
San Diego, California

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and the major fund of the San Diego Local Agency Formation Commission, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the San Diego Local Agency Formation Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to San Diego Local Agency Formation Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the San Diego Local Agency Formation Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the San Diego Local Agency Formation Commission, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-7) and the required supplementary information (page 30-35), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 13, 2021

Measurement Date	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.042%	0.032%	0.041%	0.056%	0.050%	0.056%
Proportionate share of the net pension liability	$ 1,686,072	$ 1,091,200	$ 1,501,659	$ 1,661,384	$ 1,023,368	$ 893,715
Covered - employee payroll	$ 615,474	$ 444,760	$ 505,077	$ 462,897	$ 411,232	$ 444,346
Proportionate share of the net pension liability as a percentage of covered-employee payroll	274%	245%	297%	359%	249%	201%
Plan fiduciary net position as a percentage of the tot						

San Diego Local Agency Formation Commission
As of June 30, 2020
Last 6 Years
SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ending June 30	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 209,786	$ 172,020	$ 166,680	$ 180,945	$ 135,423	$ 142,703
Contributions in relation to the actuarially determined contributions	(209,786)	(172,020)	(166,680)	(180,945)	(135,423)	(142,703)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll during the fiscal year	$ 615,474	$ 444,760	$ 439,767	$ 505,077	$ 462,897	$ 411,232
Contributions as a percentage of covered-employee payroll	34.09%	38.68%	37.90%	35.83%	29.26%	34.70%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

San Diego Local Agency Formation Commission

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY AND RELATED RATIOS

For the year ended June 30, 2020

Measurement Period	2019	2018	2017
Plan's Proportion of the Net OPEB Liability (Asset)	0.050%	0.037%	0.044%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	$ 56,490	$ 47,526	$ 63,154
Plan's Covered Payroll	$ 615,474	$ 444,760	$ 505,077
Plan's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	9.180%	10.690%	12.432%
Plan's Proportion of the Fiduciary Net Position	14.730%	10.120%	6.920%
Plan's Proportionate Share of the Fiduciary net Position as a percentage of the Plan's Total OPEB Liability	14.730%	10.120%	6.920%
Plan's Proportionate Share of Aggregate Employer Contributions	0.050%	0.037%	0.044%

Notes to Schedule:

The schedules present information to illustrate the changes in San Diego LAFCO's net OPEB liability over a ten year period when the information is available. San Diego LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

San Diego Local Agency Formation Commission

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - OPEB

For the year ended June 30, 2020

Measurement Period	2019	2018	2017
Actuarial Determined Contribution	$ 10,106	$ 7,282	$ 7,256
Contributions in relation to the actuarially determined contribution	(10,106)	(7,282)	(7,256)
	$ -	$ -	$ -
Covered payroll	$ 615,474	$ 505,077	$ 439,767
Contributions as a percentage of covered payroll	1.64%	1.44%	1.65%

Notes to Schedule:

The schedules present information to illustrate changes in San Diego LAFCO's contributions over a ten year period when the information is available.

GASB 75 requires this information for plans funding with OPEB trusts to be reported in the employer's Required Supplemental Information for 10 years or as many years as are available upon implementation. The plan was not funded with an OPEB trust prior to June 30, 2018. San Diego LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

BOARD OF COMMISSIONERS & MANAGEMENT REPORT

For the Year Ended
JUNE 30, 2020

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Commissioners
San Diego Local Agency Formation Commission
San Diego, California

In planning and performing our audit of the basic financial statements of San Diego Local Agency Formation Commission (LAFCo) for the fiscal year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego Local Agency Formation Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist San Diego Local Agency Formation Commission in implementing the recommendations.

This report is intended solely for the information and use of management, the Commissioners, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank San Diego Local Agency Formation Commission's staff for its cooperation during our audit.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 13, 2021

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Commissioners
San Diego Local Agency Formation Commission
San Diego, California

We have audited the basic financial statements of the governmental activities and major fund of San Diego Local Agency Formation Commission (LAFCo) for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of LAFCo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by LAFCo are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by LAFCo during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimate(s) affecting the financial statements were:

- Management's estimate of the Pension Obligation Bonds Payable is based on information provided by the County of San Diego. We evaluated the key factors and assumptions used to develop the Pension Obligation Bonds Payable in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of transactions related to net pension and OPEB liabilities is based on information provided by the County of San Diego based on actuarial reports. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Capital asset lives and depreciation expense;
- Fair value of investments and financial instruments;
- Compensated absences calculations;
- Post-employment benefit and pension plan actuarial computations.

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Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements (Audit Adjustments)
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated April 13, 2021.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to LAFCo's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as LAFCo's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
We applied certain limited procedures to Management's Discussion and Analysis, Schedule of the Plan's Proportionate Share of the Net Pension Liability, Schedule of Plan Contributions, Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, and Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and the Board of Commissioners of San Diego Local Agency Formation Commission and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Current Year Observations

Nothing came to our attention.

Prior Year Observations

1) Debit/Bank and Credit Card Statement Approvals

Observation:

During the course of our audit of San Diego Local Agency Formation Commission (the Commission), we noted the Credit Card and Bank Statements approval was not documented.

Recommendation:

We recommended the Executive Officer initial the statements to document approval.

Status:

This recommendation has been implemented.

2) Written Accounting, Administrative and Fraud Procedures Manual

Observation:

During the course of our audit, we noted that the Commission does not have a formal accounting, administrative and fraud procedures manual. This manual would document the Commission's internal controls to safeguard assets and accounting records. This manual would also note the Commission's policies regarding prevention, detection and deterrence of fraud and would serve as a training guide for new employees.

Recommendation:

We recommended the Commission develop and maintain an up to date accounting, administrative and fraud procedures manual.

Status:

This recommendation has not been implemented.