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**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)**  
**EXECUTIVE OFFICER'S REPORT**

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**AGENDA ITEM No. 9**

**DATE:** April 13, 2016  
**TO:** Fresno Local Agency Formation Commission  
**FROM:** David E. Fey, AICP, Executive Officer   
**SUBJECT:** Consider Biannual Financial Audit for Fiscal Year 2013-2014

**RECOMMENDATION:** Accept Audit for the Fiscal Year ending June 30, 2014

**Background**

On April 14, 2010, the Commission established an official policy to have a financial audit performed on a biannual basis and with the change of each Executive Officer. Like many other local agencies, Fresno LAFCo is not required to conduct an annual audit since LAFCo does not receive funding from State and/or Federal governments and there is no statutory mandate. However, LAFCo is still accountable for insuring that public funds are spent appropriately and are accounted for.

**Discussion**

The biannual audit for Fiscal Year 2013-2014 concluded that there has been no fraudulent financial reporting or misappropriation of assets, or any other areas of concern.

**Comments on Auditor's Report to Management**

The Request for Proposals specifically asked for a list of improvements that should be made in LAFCo's financial procedures. The Auditor's comments attached as Exhibit "A" suggests four areas in LAFCo's accounting procedures that should be modified. The audit examined a fiscal year influenced by a change of Executive Officers, substantive changes to LAFCo financial procedures, and the transition of LAFCo's consulting bookkeepers. These conditions contributed to the events that were observed by the audit. For example, LAFCo's Financial and Accounting Procedures manual, initially adopted 12/7/11, established a Cash Basis of accounting. Notwithstanding, my predecessor(s) employed a practice of billing all cities and special districts for development of their Municipal Service Reviews resulting in the accounts receivable discussed in the audit on page 10, item E. Since then, this practice has been discontinued and most of the small (\$300) ARs were written-off with the exception of the larger, contract-based projects.

In staff's opinion, the Management Comments reflect practices that have since been modified by the Commission. The Executive Officer's responses to Comments on Auditor's Report to Management are as follows.

**Subject: Cash Receipts**

**Comment by Auditor:** During our testing of internal controls over cash receipts, we noted the following:

- One group of checks did not indicate that they had been approved before being deposited.
- Two groups of checks were not date stamped when received by the Commission.

**Recommendation by the Auditor:** the Executive Officer should review all checks that come in and review the deposit being entered into the accounting system to ensure all deposits are accounted for. All support for any payments received should be date stamped to ensure stronger controls over cash receipts.

**Executive Officer's Response:** Procedures adopted by the Commission on September 11, 2013 (Resolution No. 117) established procedures for intake, approval, and accountability of all checks received. All checks are to be date stamped, reviewed by the Executive Officer, coded for the appropriate revenue account, and deposited in the business day they were received. In the event that they are not received in time to deposit that day, checks are stored in LAFCo's office safe until the next business day.

**Subject: Cash Disbursements**

**Comment by Auditor:** During our testing of internal controls for cash disbursements the following was noted out of 25 disbursements tested:

- Two checks did not indicate they had been approved for payment.

**Recommendation by the Auditor:** The Executive Officer should approve all invoices prior to their payment to increase internal controls over cash disbursements.

**Executive Officer's Response:** Procedures adopted by the Commission on September 11, 2013, by Resolution No. 117, increased internal controls. The Executive Officer approves all invoices prior to their payment. All invoices are date stamped, reviewed by the Executive Officer, and coded with the appropriate expense account. the Clerk to the Commission verifies that invoices are appropriately processed prior to conveying them to the consultant bookkeeper who also verifies that invoices are approved as a further internal control.

**Subject: Accrued Vacation**

**Comment by Auditor:** Currently the Executive Officer keeps track of his own vacation accrual and has no independent oversight of that calculation.

**Recommendation by the Auditor:** The bookkeeper should keep a detailed analysis of vacation time earned by the Executive Officer to increase internal control over the calculations and make proper accrual entries to record the liability.

**Executive Officer's Response:** Procedures adopted by the Commission on September 11, 2013, by Resolution No. 117, addressed management and accountability of the Executive Officer's leave balances. The Commission's payroll consultant (currently Pay Stub Services Inc.) keeps track and provides control over all staff leave balances, including the Executive Officer's.

**Subject: Credit Card**

**Comment by Auditor:** During our testing of internal controls over the office credit card, we noted that the Executive Officer is approving his own credit card purchases.

**Recommendation by the Auditor:** We recommend someone other than the Executive Officer be assigned to approve the Executive Officer's credit card purchases.

**Executive Officer's Response:** Procedures adopted by the Commission on September 11, 2013, by Resolution No. 117, established procedures, all invoices, including credit card invoices, are paid monthly with checks issued from LAFCo's two-signature account. All invoices are countersigned by the Commission chair or another commissioner, and photocopies of checks are maintained in LAFCo's office.

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