



AGENDA STAFF REPORT

DATE: April 12, 2021

TO: Honorable Mayor and City Council

THRU: Jill R. Ingram, City Manager

FROM: Kelly Telford, CPA, Finance Director/Treasurer

SUBJECT: **City of Seal Beach Annual Audit Reports for Fiscal Year Ended June 30, 2020**

SUMMARY OF REQUEST:

That the City Council receive and file the following documents for fiscal year ending June 30, 2020:

- A. Comprehensive Annual Financial Report
- B. Audit Communication Letter
- C. Report on Internal Control
- D. Appropriations (GANN) Limit Agreed-Upon Procedures Report

BACKGROUND AND ANALYSIS:

The audit firm of The Pun Group Accountants & Advisors has completed the annual audit of the City of Seal Beach (City) for the fiscal year ended June 30, 2020. The audit was conducted in accordance with generally accepted auditing standards and included examining, on a test basis, evidence supporting the amounts and disclosures to obtain reasonable assurance that the financial statements are free of material misstatements. Based on the results of their audit, The Pun Group Accountants & Advisors provided the City with an unmodified opinion on the financial statements, which indicates that the City's financial statements are free of material misstatements and are in accordance with Generally Accepted Accounting Principles (GAAP). This is the best opinion the City could receive.

The Council Audit Subcommittee, consisting of Mayor Kalmick and Mayor Pro Tem Varipapa, met with the City Manager, Assistant City Manager, Finance Director, and Finance Manager on March 30, 2021 to discuss the results of the annual audit, which are summarized below.

Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report (Attachment A) is a summary report of the financial transactions of the City for Fiscal Year 2019-20. The report is designed to provide summary financial information for all funds of the City. The financial statements were prepared in conformity with Generally Accepted Accounting Principles (GAAP) and comply with reporting requirements of the national Governmental Accounting Standards Board (GASB).

During Fiscal Year 2019-20, the City of Seal Beach, along with cities across the nation, faced unprecedented economic uncertainty as a result of the COVID-19 pandemic. In March 2020, Governor Newsom issued a stay-at-home order that resulted in the City's revenue streams being significantly decreased. The City took swift action to address these declines with the departments taking deep cuts in operating expenditures. These cuts, coupled with reimbursements from insurance related to the pier fire and delays in capital improvement projects, allowed the City to close the fiscal year with an operating surplus of \$5 million in the General Fund. This surplus is anticipated to be a timing difference and is expected to be spent in future years as capital improvement projects resume and one-time contracts are completed, all of which were delayed to the COVID-19 pandemic. It is important to note that this includes other funds grouped with the General Fund for financial statement purposes including the Waste Management Fund, Special Projects Fund, Local Emergency Fund, Tidelands Fund, and Parking In-Lieu.

The City's Water Utility Fund has an operating deficit of \$1.2 million. This was anticipated and discussed at length during 2020 as the City Council considered adjusting the water and sewer rates. With the City Council's approval of the new rates in February 2021, the operating deficit is expected to be resolved beginning in Fiscal Year 2021-22.

The City received \$1.1 million in CARES Act funding from the State of California and the County of Orange, which was used to provide small business assistance grants and fund COVID-19 related expenditures for the City.

Other financial highlights can be found in the Management's Discussion and Analysis on page 5 of the Comprehensive Annual Financial Report.

The Comprehensive Annual Financial Report was submitted to the Government Finance Officers Association to, once again, be considered for the Certificate of Achievement for Excellence in Financial Reporting. If awarded, this will be the 20th consecutive year the City will have received this distinguished award.

Other Reports Issued

In addition to the Comprehensive Annual Financial Report (Attachment A), three additional reports were issued: Audit Communication Letter (Attachment B), the

Report on Internal Control (Attachment C) and the Appropriations (GANN) Limit Agreed-Upon Procedures Report (Attachment D).

The purpose of the Audit Communication Letter (Attachment B) is to provide a mechanism for communication with the governing body highlighting any significant issues that may arise during the audit process. As indicated, the City's financial statements were clearly presented.

The purpose of the Report on Internal Control (Attachment C) is to help the auditor in designing audit procedures for the purpose of expressing an opinion on the financial statements. The report includes a finding and recommendation related to the City's financial system limitations. As indicated in the report, the City is in the process of implementing a new financial software system, which will resolve the issue noted.

The purpose of the Appropriations (GANN) Limit Agreed-Upon Procedures Report (Attachment D) is to attest that the calculation was performed using the correct methodology and was correctly calculated based upon the information provided.

ENVIRONMENTAL IMPACT:

There is no environmental impact related to this item.

LEGAL ANALYSIS:

No legal analysis is required for this item.

FINANCIAL IMPACT:

There is no financial impact for this item.

STRATEGIC PLAN:

This item is not applicable to the Strategic Plan.

MEASURE BB:

This item is not applicable to Measure BB, the Seal Beach Neighborhood and Essential Services Protection Measure.

RECOMMENDATION:

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- C. Report on Internal Control
- D. Appropriations (GANN) Limit Agreed-Upon Procedures Report

SUBMITTED BY:

Kelly Telford

Kelly Telford, CPA, Finance
Director/Treasurer

NOTED AND APPROVED:

Jill R. Ingram

Jill R. Ingram, City Manager

ATTACHMENTS:

- A. Comprehensive Annual Financial Report
- B. Audit Communication Letter
- C. Report on Internal Control
- D. Appropriations (GANN) Limit Agreed-Upon Procedures Report