

LRB – FISCAL REVIEW SECTION ANALYSIS

SEPTEMBER 20, 2001 AGENDA

ITEM 23, FILE 010641

FINANCE & PERSONNEL COMMITTEE

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File 010641 is a communication from the Comptroller transmitting a report on internal controls and other operational matters which was prepared by KPMG, LLP.

Background and Discussion

1. In June 1999, the Governmental Accounting Standards Board (GASB) changed the government reporting model. Those changes are outlined in GASB Statement No. 34. The model establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities.
2. In addition, all City component units must adopt GASB no. 34 in 2002.
3. FN 010641 contains the City's corporate auditor, KPMG, LLC., report of findings based on the City's general-purpose financial statements audit.
4. The City Comptroller and City Treasurer engaged KPMG to review the reconciliation process and identify improvement opportunities.
5. The City is responsible for enhancing the clarity and usefulness of its financial statements to the citizenry, oversight bodies, investors and creditors.
6. The 2000 audit does not examine the effectiveness of internal control and does not provide assurance on internal control. However, KPMG notes that bank account balances did not reconcile to the general ledger balances in the case of the accounts payable account during 2000 and 1999. An adjustment of \$80,000 was subsequently made to the City's general ledger to correct the discrepancy.

Fiscal Impact

1. The 2001 Budget provides \$50,000 funding to coordinate the Comptroller and City Engineer effort to inventory, value and report on City fixed assets, including infrastructure, prior to the 2002 compliance deadline.
2. In addition to requesting \$43,000 in the 2002 Requested Budget for project development funding, the Comptroller anticipates needing approximately an additional \$22,000 in the 2003 budget to fund the **additional audit costs associated with the GASB No. 34 project.**

Other Information

1. The Comptroller is actively training staff and management on the new GASB No. 34 model. Management is developing policies and procedures that will be instrumental in bringing the City into compliance with the new statement. The Comptroller is also providing training opportunities to component unit personnel.
2. The Comptroller is developing a RFP for work developments expected to commence November 2001. The purpose of the RFP is to solicit a form to inventory, value and report on fixed assets.
3. Changes in the government reporting model, according to GASB Statement No. 34, require the City to implement the follow changes by December 31, 2002:
 - Management's Discussion and Analysis (MD&A) – The City must introduce its financial statements by presenting an analysis of the City's financial performance for the year and its financial position at year-end.
 - Government and business type activities must be distinguished through government-wide reporting based on the requirement to report financial operations and net assets, excluding fiduciary activity.
 - All information at the City level will be reported using the economic resources measurement focus and accrual basis of accounting.
 - Fixed assets, including infrastructure, long-term liabilities, and bonded debt must be reported with all other City assets and liabilities. Asset values must be reported.
 - A "net program cost" format replaces the traditional operating statement. Capital assets, including infrastructure assets, are reported at historical cost or estimated historical cost, generally net of depreciation.
 - The City must capitalize and depreciate general infrastructure assets prospectively.
 - Fund financial statements retain their traditional focus (short-term fiscal accountability for government funds and longer-term operational accountability for proprietary funds). The fiduciary fund category is redefined to exclude funds that account for resources not available to finance primary government programs- basically, pension trust and other employee benefit funds, investment trust funds, agency funds, and remaining fiduciary funds classified as private-purpose.
 - Contributed Capital and Retained Earnings classifications are eliminated.
 - Capital contributions must appear on financial statements as components of the net asset change, rather than being treated as balance sheet transactions.
 - Accounting must be reconciled to the GAAP (generally accepted accounting principles).

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