

**CITY OF MONTEREY
RFP FOR INDEPENDENT AUDIT SERVICES
FREQUENTLY ASKED QUESTIONS**

1. What is the reason you are considering changing the auditor?

The City has contracted with its' current auditor for the past 8 years – the contract expires on June 30, 2016. The City is following GFOA best practices and undertaking a competitive process for the selection of auditors at the end of the audit contract.

2. Have there been any changes in your accounting system or software since last year?

No. The City utilizes the Tyler Technologies - Eden Financial Accounting System, which includes General Ledger, Accounts Payable, Payroll, Purchasing, Fixed Assets, Budgeting and Project Accounting modules. The City utilizes Intellitime for its' electronic timekeeping system and Progressive Systems for its cashiering, business licensing and dog licensing.

3. Have there been any major changes in staff turnaround in the past year?

The Risk Manager and Finance Analyst positions are currently vacant.

4. Do you expect to have any retirement or replacement of key employees?

None expected

5. Please list the staff members in finance and their years of experience with the organization at that position.

Finance Director – 2 years
Assistant Finance Director – 5 years (previously Senior Accountant)
Senior Accountant (Revenue) - 4 years
Senior Accountant (GL/Payroll) - 4 years
Accountant/Auditor (GL) - 7 years
Accountant/Auditor (Payroll) – 7 years
Accountant/Auditor (Grants) - < 1 year (previously Accounting Specialist)
Accounting Specialist (Payroll) - 9 years
Accounting Specialist (AP) – 19 years
Accounting Specialist (AR) – 8 years
Accounting Specialist (Business License) - < 1 year (previously Accounting Assistant)
Accounting Assistant (AP) – 15 years
Accounting Assistant (Cash Receipting) – 7 years
Accounting Assistant (Cash Receipting) – 6 years
Executive Assistant – 7 years

6. How many adjusting entries did you did you have last year?

None

7. Were there any findings last year?

None

**CITY OF MONTEREY
RFP FOR INDEPENDENT AUDIT SERVICES
FREQUENTLY ASKED QUESTIONS**

8. Is the City planning to issue any new debt?

None is anticipated at this time.

9. About how much time did the prior year auditors spend onsite to conduct their audit?

One week during the interim audit visit; two weeks during final audit visit

a. How many staff were at the City performing audit fieldwork?

Typically, one or two staff were on site performing fieldwork.

10. Are the prior year auditors being invited to bid?

Yes

11. What are the things you liked and didn't like about your current auditors?

We liked that audit staff was experienced and consistent from year to year, and that there was a responsible, senior auditor always on site during the audit visit. Auditors were able to conduct testing using the City's electronic tools, such as the Intellitime timekeeping system and SIRE records management system.

12. What were the prior year fees? Did these fees include travel?

Total fees for the FY14/15 audit, including travel: \$49,030

13. Are there any new services in this RFP that were not included in the prior year?

Yes - audit of the financial statements of the Monterey Regional Water Authority. Information on the Water Authority is listed on page 5 of the RFP.

14. Were there any disagreements with prior year auditors?

No

14. Does the City have a finance or audit committee? If yes, did the audit firm meet with the committee?

The City does not have a finance or audit committee.

15. What is the City's expected audit timeline for the FY 2016 audit

a. Interim: Late-June, 2016

b. Final: Mid-October, 2016

c. Report due dates:

**CITY OF MONTEREY
RFP FOR INDEPENDENT AUDIT SERVICES
FREQUENTLY ASKED QUESTIONS**

Draft: November 15, 2016

Final: November 30, 2016

16. Are there any significant changes in operations expected at the City?

None anticipated.

17. Will there be a single audit?

Yes. Please refer to RFP page 3 and 6

18. Has the City entered into any major contracts, studies and/or started any projects in the current fiscal year that would not be reflected in the prior year financial statements?

The City began construction on the Conference Center renovation project, which has a budget of \$60 million. The majority of the construction costs will occur during the current fiscal year, with completion scheduled for the fall, 2016. Bonds were issued to fund this project in FY15 and FY16. Information about the special tax used to repay the bonds is located on the City's FY14/15 Comprehensive Annual Finance Report, page 55.

The City began phase two of the Sewer Rehabilitation project, funded by a low interest loan from the Clean Water State Revolving fund. Phase two is budgeted at \$12.5 million. This funding is subject to the Single Audit Act.

A special local transactions and use tax, "Measure P," was passed in November 2014, and FY16 is the first year with significant revenue. This assessment is used to fund CIP projects to repair streets, sidewalks and potholes, to improve access and to repair the storm drain system.

19. Is the City involved in any litigation not included in the Prior Year Financial Statements?

There are no pending claims and judgments at this time that would likely have a material adverse effect on the financial position of the City.

20. How did you measure the quality of the audit performed?

Peer review and ability to assist us by providing expertise and guidance regarding new pronouncements. We expect the auditor to have a sufficient understanding of our organization and operations to allow them to perform an effective audit.

21. What audit areas, in your opinion, were cumbersome?

Revenue audit sampling could be cumbersome because samples taken from the GL revenue detail contained multiple items that were rolled up from the subsidiary ledger (e.g. Accounts Receivable or the cashing system). This could be remedied by sampling from the subsidiary ledger(s).

22. What efficiencies would you like to see in the audit of the City's financials?

Auditors ability to use the City's electronic data sources and technology in conducting the audit. Sufficient advance notice of required schedules and documentation prior to on-site visits.

**CITY OF MONTEREY
RFP FOR INDEPENDENT AUDIT SERVICES
FREQUENTLY ASKED QUESTIONS**

23. Please provide a copy of prior year, SAS 114 communication letter and management letter, if any. See attachment A.

CITY OF MONTEREY
MANAGEMENT REPORT

For the Year Ended
JUNE 30, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction	1
Required Communications	2-3
Management Observations	4

Honorable members of the City Council
City of Monterey
Monterey, California

In planning and performing our audit of the basic financial statements of City of Monterey for the fiscal year ended June 30, 2015, 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 City of Monterey'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 affects 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 results 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.

This report is intended solely for the information and use of management of City of Monterey and others within the organization, and is not to be and should not be used by anyone other than these specified parties.

We thank City of Monterey's staff for its cooperation during our audit.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 4, 2015

City of Monterey
MANAGEMENT REPORT
For the Year Ended June 30, 2015

We have audited the basic financial statements of City of Monterey for the year ended June 30, 2015. 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 15, 2015, 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 City of Monterey. 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 will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Monterey are described in Note 1 to the basic 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 City of Monterey 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 basic 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 basic 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 basic financial statements taken as a whole. The most sensitive estimates affecting the basic financial statements were:

- Accrual and disclosure of compensated absences;
- Capital asset lives and depreciation expense;
- Actuarial assumptions for uninsured claims liabilities, pension and other post-employment benefit plans;
- Allowances for uncollectible receivables and loans;
- Accrual and disclosure of leases;
- Amortization of deferred costs;
- Fair value of investments and financial instruments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

City of Monterey
MANAGEMENT REPORT
For the Year Ended June 30, 2015

Corrected and Uncorrected Misstatements

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. In addition, of the misstatements detected as a result of audit procedures and corrected by management most were immaterial, either individually or in the aggregate, to the financial statements taken as a whole.

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 December 4, 2015.

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 City of Monterey'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 City of Monterey's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

City of Monterey
MANAGEMENT REPORT
For the Year Ended June 30, 2015

Current Year Observations

There were no current year observations.

Prior Year Observations

1) Purchasing Policies and Related Controls

Observation:

During our review of the City's controls over purchasing, we noted there is a risk that projects may be split to avoid obtaining quotes in compliance with the Cities purchasing policies. In some cases, more than one project is completed by the same contractor within a 3-4 week time frame. The aggregate cost of these projects exceeds the Cities threshold of \$3,500 to obtain three quotes.

Recommendation:

To mitigate this risk the City may want to specify in their policies a time period in which contracted project costs or purchases should be aggregated for compliance with the Cities purchasing policy threshold of \$3,500 for obtaining quotes.

Response:

In May, 2015, the City updated the purchasing manual to include the following clarification: Multiple purchases with the same vendor within the same month for the same goods or services are considered a split purchase.

Status:

This recommendation has been implemented.