



City of Arts & Innovation

Financial Performance and Budget Committee

TO: FINANCIAL PERFORMANCE AND BUDGET COMMITTEE MEMBERS

DATE: MARCH 8, 2023

FROM: FINANCE DEPARTMENT

WARD: ALL

SUBJECT: ANNUAL AUDIT REPORTS FROM EXTERNAL INDEPENDENT AUDITOR, LANCE, SOLL & LUNGHARD, LLP ON CITY OF RIVERSIDE FINANCIAL RESULTS FOR FISCAL YEAR 2021-2022

ISSUES:

Receive the annual audit reports from external independent auditor, Lance, Soll & Lunghard, LLP on the City of Riverside financial results for Fiscal Year 2021-2022 and reappoint Lance, Soll & Lunghard, LLP, to serve as the City's independent auditor to conduct the annual audit of Fiscal Year 2022-2023.

RECOMMENDATIONS:

That the Financial Performance and Budget Committee recommend that the City Council:

1. Receive, provide input on and forward to the City Council the annual financial audit reports for Fiscal Year 2021-2022; and
2. Reappoint Lance, Soll & Lunghard, LLP, to serve as the City's independent auditor to conduct the annual audit for Fiscal Year 2022-2023.

BACKGROUND:

On April 10, 2019, the Finance Committee conducted interviews for the appointment of a new independent external auditor. The Committee interviewed the top two (2) accounting firms, Vavrinek, Trine, Day & Co., LLP (VTD) and Lance, Soll & Lunghard, LLP (LSL), identified through a formal Request for Proposal process. Following interviews and discussion, the Committee recommended that the City Council appoint Lance, Soll & Lunghard, LLP to serve as the City's independent auditors in accordance with its annual audit requirements for a five-year period, subject to annual reappointments, beginning with the fiscal year ending June 30, 2019.

On June 4, 2019, City Council awarded a Professional Consultant Services Agreement for Certified Public Accountant Services to Lance, Soll & Lunghard, LLP to serve as the City's independent auditor for a five-year term, subject to annual renewals and appointed Lance, Soll &

Lunghard, LLP as the City's independent external auditor for a five-year term, subject to annual renewals.

DISCUSSION:

The City's external independent auditor Lance, Soll & Lunghard, LLP has completed the annual audit of the City's financial statements and other financial reports subject to audit, as follows:

1. Annual Comprehensive Financial Report (ACFR)
2. Electric and Water Financial Reports
3. Successor Agency Financial Report
4. Riverside Public Financing Authority Financial Report
5. Single Audit Report on Federal Awards
6. Air Quality Management District Report
7. Appropriations Limit (Gann) Calculation Agreed-Upon Procedures.

The auditors provided an unmodified, or clean, opinion that the City's financial statements are presented fairly and in conformity with generally accepted accounting principles. This clean audit opinion supports the fact that the City observed compliance with generally accepted accounting principles and statutory requirements. As part of the financial audit, the auditors provided a management letter and there were no misstatements detected as a result of the audit procedures and corrected by management which were material, either individually or in the aggregate, to the financial statements taken as a whole. This is a remarkable achievement given the size and complexity of the City.

The City's financial statements are distributed to the City Council, federal and state government agencies per contract requirements, bond holders, rating and financial institutions, and are made available in libraries for interested citizens.

For the sixth time, the City has produced a Popular Annual Financial Report (PAFR). The Government Finance Officers Association (GFOA) established the PAFR in 1991 to encourage and assist state and local governments to extract information from their ACFR to produce high quality popular annual financial reports specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance and who may be overwhelmed by the volume of information in the traditional ACFR.

For the fifth time, the City received an award from GFOA for the 2020-2021 submission of the PAFR. The current report continues to meet the Award for Outstanding Achievement in Popular Financial Reporting program requirements and is being submitted to GFOA to determine its eligibility for another certificate.

Additional and important achievements were made during fiscal year 2021-2022, in which the City implemented three major projects:

1. **CaseWare:** In an effort to streamline the financial preparation and reporting process, the City purchased a software solution, CaseWare, which was approved by City Council on July 20, 2021. Each year, the City's Finance Department is responsible for producing the

ACFR and various other financial statements. In addition, Riverside Public Utilities' Finance Department is responsible for producing the stand-alone Electric and Water financial statements. Prior to the implementation CaseWare, the production of these financial statements was a manual process consisting of Microsoft Excel spreadsheets and Microsoft Word. The new software enabled the process to become more automated on a singular program which automatically linked to various part of the financial reports. In the future, this will reduce the production and review time of the financial statements.

2. **Implementation of GASB Statement No. 87, Leases:** For the current fiscal year 2021-2022 financial statements, the City implemented GASB Statement No. 87, Leases, essentially eliminating the concept of off-balance sheet financing and requiring organizations to recognize equipment and real estate type leases as assets and liabilities on the balance sheet. Under GASB 87, a lessee government is required to recognize: (1) a lease liability; and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize: (1) a lease receivable; and (2) a deferred inflow of resources.

The City identified 274 individual leases that met the GASB 87 requirements which required 274 amortization schedules and over 1,800 journal entry line items in order to comply.

3. **LeaseQuery – Lease Management and Reporting Software:** In order to effectively and efficiently implement GASB 87, the City purchased a software solution, LeaseQuery, which was approved by City Council on February 15, 2022. Additionally, the City previously did not have a successful consolidated lease tracking system for citywide leases. Leases were tracked separately by individual departments within the City which caused inefficiencies and challenges with financial oversight of citywide leases. In total, the City identified 440 leases consisting of 274 GASB 87 and 166 Non-GASB 87 leases, which will be tracked in LeaseQuery.

Lance, Soll & Lunghard, LLP has completed its fourth year of a five-year contract, consistent with the City's charter which allows the City's independent auditor to serve for no more than five years before mandatory rotation is required. This practice is consistent with industry best practices as promulgated by the national organization of municipal financial professionals, the GFOA. The Finance Department is satisfied with the current year's audit and recommends Lance, Soll & Lunghard, LLP be reappointed for the fifth and final year of their contract.

Lance, Soll & Lunghard, LLP will provide the attached presentation of required communication with the Financial Performance and Budget Committee and answer any questions.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 5 – High Performing Government** and **Goal No. 5.2**, Utilize technology, data, and process improvement strategies to increase efficiencies, guide decision making, and ensure services are accessible and distributed equitably throughout all geographic areas of the City.

The item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The financial reports attached enhances transparency regarding the financial situation of the City and closely related agencies.

2. **Equity** – This report is neutral towards this cross-cutting thread.
3. **Fiscal Responsibility** – The financial reports provide fiscal responsibility and accountability to show the current financial situation of the City and closely related agencies.
4. **Innovation** – This report is neutral towards this cross-cutting thread.
5. **Sustainability & Resiliency** – These financial reports communicate and help ensure City funds are used in a sustainable way without compromising future needs.

FISCAL IMPACT:

There is no fiscal impact associated with this report. Funding for the annual audit of Fiscal Year 2022-2023 is included in the FY 2023-2024 budget.

Prepared by: Nancy Garcia, Controller
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer / City Treasurer
Approved by: Kris Martinez, Assistant City Manager
Approved as to form: Phaedra Norton, City Attorney

Attachments:

1. Annual Comprehensive Financial Report (ACFR)
2. Electric and Water Financial Reports
3. Successor Agency Financial Report
4. Riverside Public Financing Authority Financial Report
5. Single Audit Report on Federal Awards
6. Air Quality Management District Report
7. Appropriations Limit (Gann) Calculation Agreed-Upon Procedures Report
8. Independent Auditors' Report on Internal Control over Financial Reporting
9. Required Auditor Communication Letter
10. Popular Annual Financial Report (PAFR)
11. Presentation – Lance, Soll & Lunghard, LLP
12. Presentation – Finance Department