

**TOWN OF SAN ANSELMO
STAFF REPORT
December 3, 2008**

For the Meeting of December 9, 2008

TO: Town Council

FROM: Janet Pendoley, Finance & Admin Services Director

SUBJECT: Annual Independent Audit Report for Fiscal Year ending June 30, 2008

RECOMMENDATION

That Council accept the following reports prepared by Odenberg, Ullakko, Muranishi (OUM) and Company, LLP, which comprise the Annual Independent Audit Report for the fiscal year ending June 30, 2008:

- General Purpose Financial Statements and Supplemental Information With Independent Auditor's Report;
- Single Audit Report on Federal Award Programs;
- Agreed Upon Procedures (Gann Limit Compliance);
- Fiscal 2008 Report to Town Council (Management Letter).

and approve staff's response to the recommendation presented in Section IV of the report to the Town Council.

BACKGROUND

OUM, Certified Public Accountants, have prepared the annual independent auditor's report and general purpose financial statements for the fiscal year ending June 30, 2008. Based on their examination of Town records and procedures, they have presented their findings in a Management Letter. In addition, they tested and reported on compliance in the Gann Limit calculations. For fiscal year 2007-08 the Town expended federal funds (FEMA and NRCS) in an amount over \$500,000; therefore, a single audit was required.

This is the seventh year of the Town's contract with OUM to conduct the audit and prepare the financial statements for the Town. Copies of the documents have been mailed to the homes of the Council members and the Treasurer. They are also included as part of the agenda packet available for public viewing on the Town's website. Scott Miller, a managing partner from OUM, will present its report to the Town Council on December 9, 2008. Following action by the Council, the document will be available for public viewing in the Finance Department for a period of 30 days and well as posted on the Town's website.

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Section I: GENERAL PURPOSE FINANCIAL STATEMENTS

The general purpose financial statements include balance sheets and revenue and expenditure reports for the Town's funds, and notes on items designated by the auditor. This section also includes government-wide financial statements as required by the Governmental Accounting Standards Board (GASB) Statement #34. They provide a more comprehensive view of the Town's financial position and include such items as an expanded valuation of the Town's fixed assets, capitalization and depreciation of those assets, indebtedness related to those assets, and more accurate information on the debt service and employee benefit accruals. This section has been presented as a two-year comparative report.

A key piece of data that the Town receives in the transmittal of the financial statements is the amount of the prior fiscal year General Fund "carryover", which is defined as the excess revenue realized in comparing actual to budgeted revenue and expenditures. At the time of the 2008-09 budget adoption, staff projected \$200,000 in carryover funds. As a result of the final closing of the 2007-08 books and confirmed in the audit process, that number has been revised to \$579,190.

The Insurance Fund statements include the booking and reporting of the long term cost estimate for all insurance claims against the Town, including both workers compensation as well as general liability claims. The liability as of June 30, 2008, as estimated by Bay Cities Joint Powers Insurance Authority, is \$494,665, a decrease of \$112,042 from last fiscal year.

The conclusion presented in the independent auditor's report resulting from OUM's audit of the Town's financial records is that the general purpose financial statements present fairly, in all material respects, the financial position of the Town as of June 30, 2008. The results of its operations and cash flows of its proprietary fund types for the fiscal year are in conformity with generally accepted accounting principles. This conclusion is known as a "clean audit."

Section II: SINGLE AUDIT REPORTS ON FEDERAL AWARD PROGRAMS

As indicated above, a Single Audit Report was required for 2007-08 due to the fact that the Town expended an estimated \$795,816 in federal award funds (FEMA and NRCS) on the 2005 flood recovery activities. There were no material deficiencies identified in this report.

Section III: AGREED UPON PROCEDURES (GANN LIMIT)

The auditors reviewed the Town's Gann Limit Worksheet for FY 07-08 for compliance with the Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution. The report indicates compliance with no exceptions.

Section IV: AUDITOR'S REPORT TO TOWN COUNCIL

The auditor's Report to Town Council contains two sections. The first, entitled Required Communications, is a series of statements regarding various aspects of the Town's internal control structure. No material deficiencies or irregularities were identified in this section.

In the second section, entitled Observations and Recommendations, OUM recommends that as a matter of "best practices" the Town adopt an anti-fraud policy and procedures that would identify and communicate to all employees issues of ethics and codes of conduct. Additionally, such a policy would provide guidelines for the investigation and handling of allegations of fraud or abuse, should they arise. The aim of such a policy is to establish ground rules to clarify that fraud will not be tolerated and to spell out the consequences of fraud.

Staff agrees that such a policy would support the Town's commitment to protecting its revenue, property, reputation and other assets. Further, it would provide procedures to guide the Town in the appropriate handling the matter, should such an issue arise. Therefore, staff is seeking Council direction regarding the initiation of such a policy and procedures.

CONCLUSION

The annual audit reports outlined above provide the Council with an overview of the fiscal condition of the Town as of June 30, 2008. The recommended actions are to accept the auditor's report and to approve the staff's response to the auditor's recommendation.

Respectfully submitted,



Janet Pendoley
Finance and Admin Services Director

Complete audit documents:

Mailed to Council Members and Treasurer

Public viewing on website: www.townofsananselmo.org

Available with public viewing agenda packets

Following Council action, available for viewing in
the Finance Department for 30 days