



March 9, 2017

Agenda Item # 9

CITY OF ISLETON PRE-AWARD ENGAGEMENT

Action Requested: Authorize Staff

Key Staff: Timothy Jones, Accounting Manager

Recommendation

Authorize staff to release all original Measure A funds STA holds on behalf of the City of Isleton for capital construction costs.

Background

The Authority has been holding over \$400,000 in Original Measure A money belonging the City of Isleton (Isleton) because last year the Authority's auditor found deficiencies in its internal controls. Specifically, Isleton was unable to provide an accounting system narrative over Measure A projects. Additionally, Isleton has not completed a financial statement audit since fiscal year ending June 30, 2014. In a review of that audit report, we found that there were four findings, one involving the lack of certain policies and procedures that could impact Measure A funds. Therefore, during its October 2016 meeting, the ITOC requested a bid to perform a pre-award audit from STA's current auditor. Subsequently, the ITOC engaged Richardson and Company to perform limited procedures for a cost of no more than \$3500.

Discussion

The engagement was completed January 16, 2017. According to the report received from our auditor, Isleton is nearing completion of its June 30, 2015 audit and was able to provide an accounting system narrative over Measure A projects. In addition, the report indicates that the audits for fiscal years 2015 and 2016 were delayed while the city worked on establishing self-balancing funds within its accounting system. Furthermore, Isleton hired new accounting staff in August 2016 that is working more closely with Isleton's City Council in an effort to increase its oversight.

Our auditor preformed procedures regarding how Isleton charges Measure A projects for costs associated with direct labor, how it determines the costs to be reimbursed by Measure A, and how or if it plans to reimburse indirect costs using Measure A funds. Our auditor found that direct labor costs were correctly calculated and charged to the Measure A program. In addition, our auditor determined that the current processes over cost reimbursements are generally working well, however, it recommended greater financial oversight by Isleton's City Council. One of the ways to accomplish that is for the City Council to review and approve a budget to actual summary at least quarterly. Isleton is currently using a 15% indirect cost allocation that is based on a dated time study.

Therefore, the auditor recommended that Isleton update its indirect allocation percentage to use actual costs as the allocation basis.

As a result of the improvements identified above and because our auditor did not find any other issues that it believes would negatively impact the use of Old Measure A funds, the ITOC is recommending that the Authority release \$438,410 in funds it holds on Isleton's behalf.

The full report from our auditor is attached.

Attachments