

City of Richmond

Presentation to City Council

March 21, 2023

Presented by: **Ahmed Badawi, CPA**
Partner



Badawi & Associates
Audit of the
City of Richmond

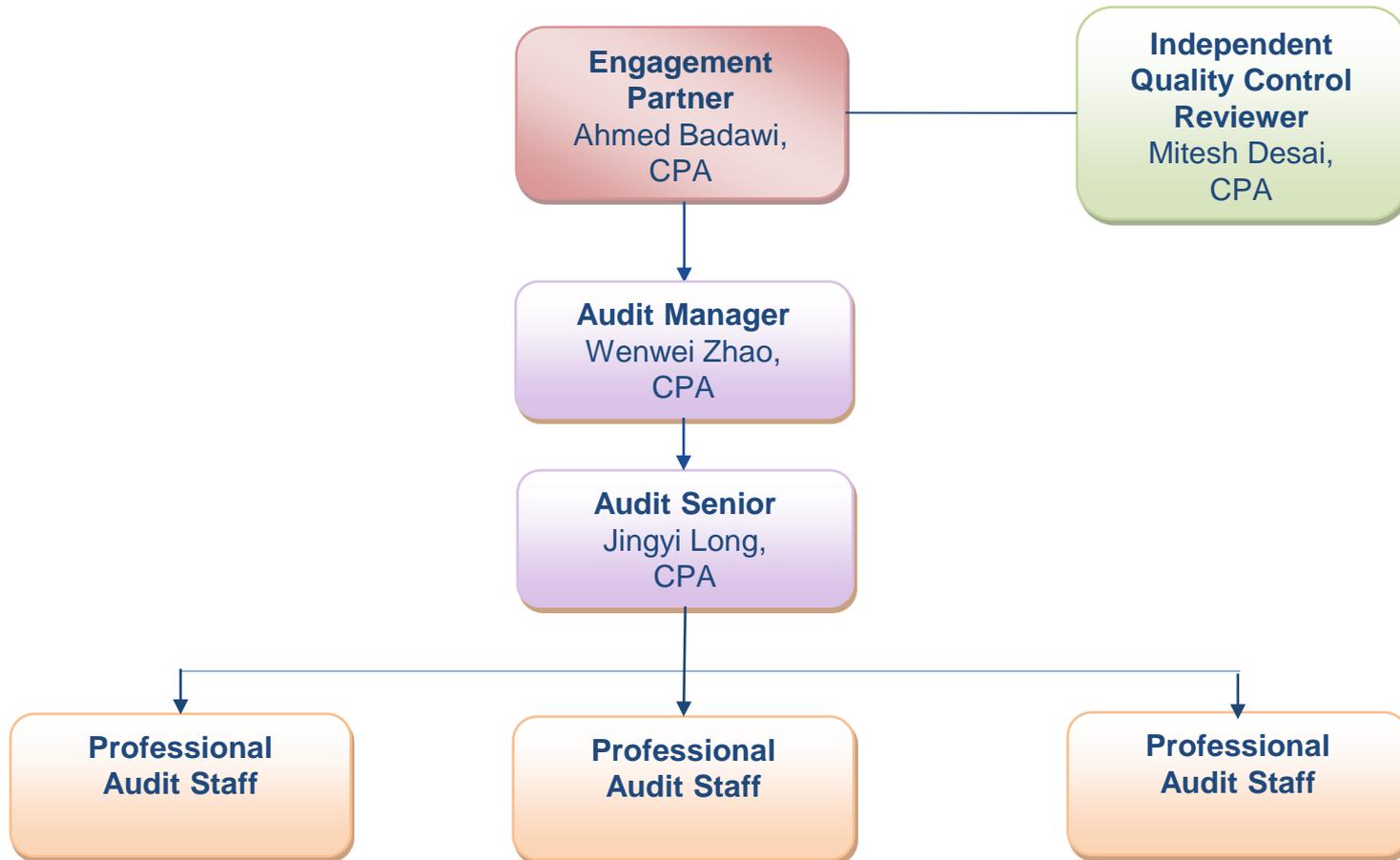
Agenda

- Engagement Team
- Deliverables and Scope of the Audit
- Areas of Primary Emphasis
- Auditor's Report and Financial Statements
- Required Communications
- New Accounting Standards
- Conclusion & Discussion/Questions

Engagement Team



Engagement Team



Deliverables and Scope of the Audit

- Report of Independent Auditors on City of Richmond Annual Comprehensive Financial Report (ACFR)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
- Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with the Uniform Guidance (City and Housing Authority)
- Report of Independent Auditors on the Joint Powers Financing Authority Basic Financial Statements
- Report of Independent Auditors on the Housing Authority Basic Financial Statements
- Annual Report of Financial Transactions to the State Controller (City, Sewer District, JPFA and 3 non-CalPERS pension plans)
- Agreed Upon Procedures – Appropriations Limit
- Communications With Those Charged With Governance
 - Letter used to summarize communication of various significant matters to those charged with governance.

Areas of Primary Audit Emphasis

- The risk of management override of controls is addressed by the following procedures:
 - Assignment of audit staff based on consideration of audit risk.
 - Procedures to incorporate an element of unpredictability in the audit.
 - Consideration of the selection and application of significant accounting principles.
 - Examination of journal entries.
 - Review of accounting estimates for bias.
 - Evaluation of business rationale for unusual transactions.
 - Evaluation of the appropriateness of fraud-related inquiries performed
- Impact of the Shelter in place and remote work on the control environment
- Revenues & Receivables (Tax, Grants, Notes, etc): Improper revenue recognitions
 - Governmental Funds: Confirm/validate property taxes, sales taxes, franchise taxes & other significant revenues/receivables.
 - Proprietary Funds: Substantive analytical procedures
- Pension and OPEB: Complex accounting treatment
 - Reviewed management's journal entries for implementing GASB 68 and GASB 75
 - Reconciled amounts recorded to reports provided by CalPERS and their auditors



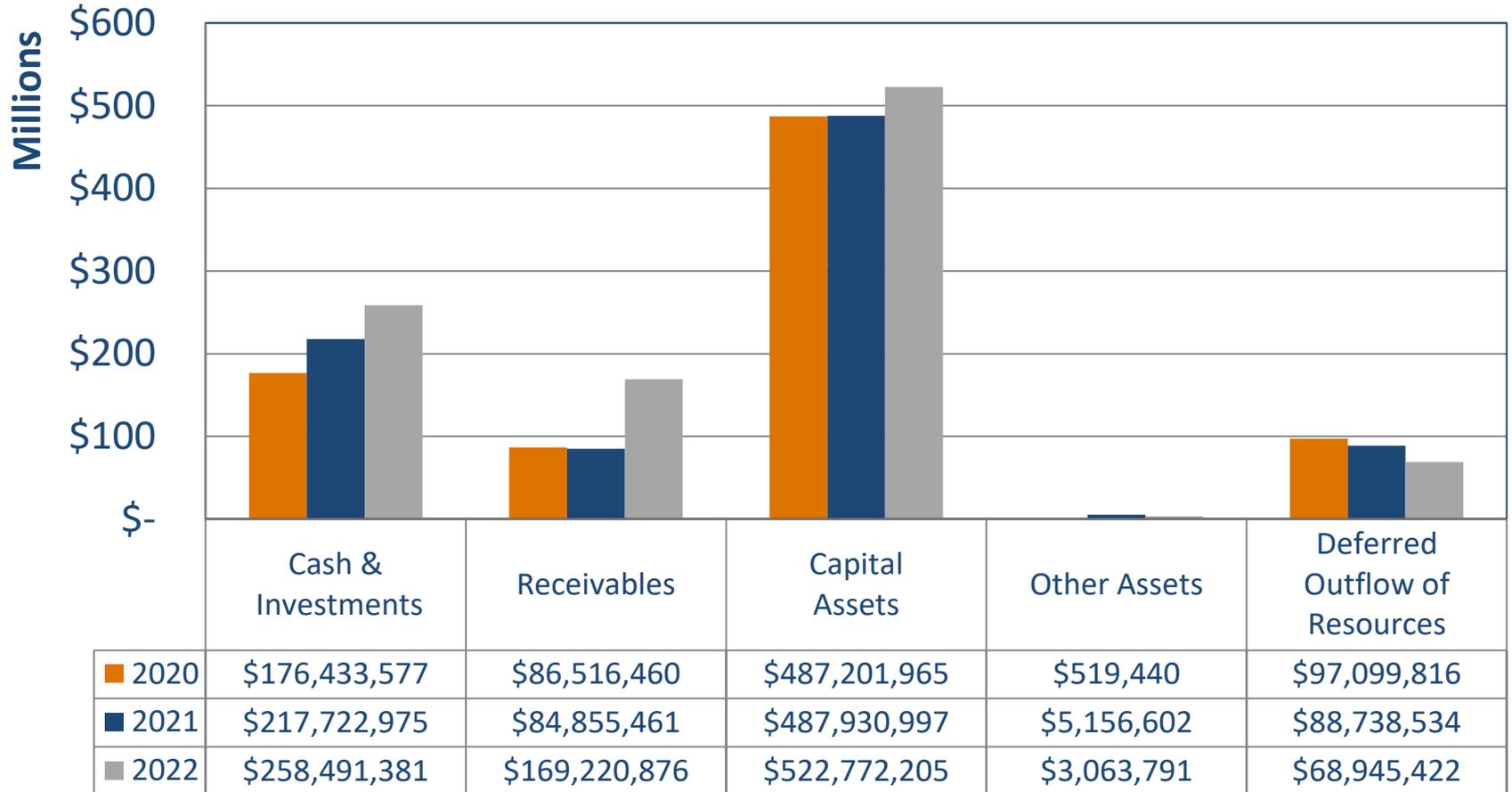
Auditor's Report

- Unmodified opinion except for RHA; Business-Type Activities; RHA RAD, LLC; RHA Properties; and RHA Housing Corporation for which we disclaimed the opinion
- Audit performed in accordance with Generally Accepted Auditing Standards, and *Government Auditing Standards*
- Financial statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements



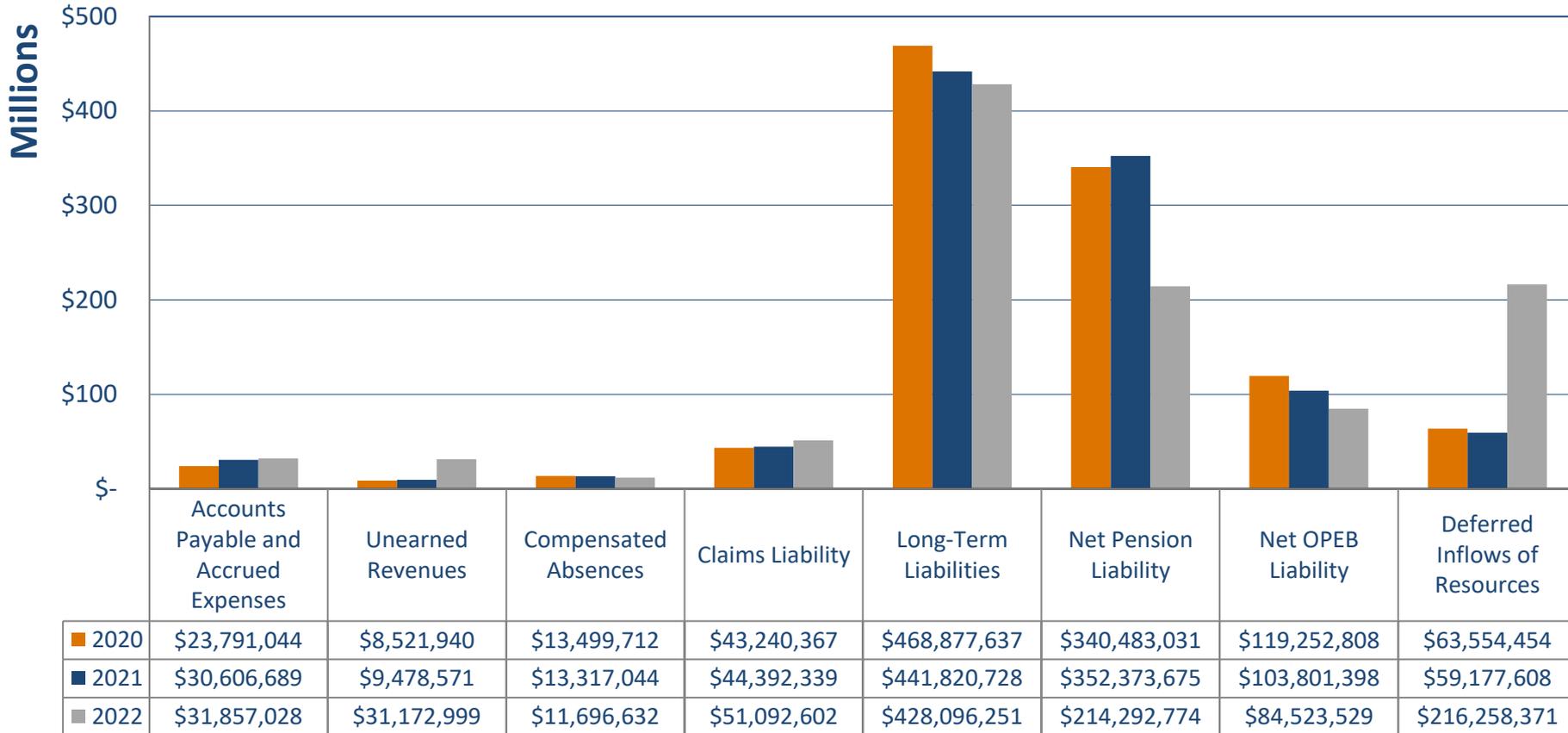
Government-Wide Financial Statements

Assets and Deferred Outflow of Resources



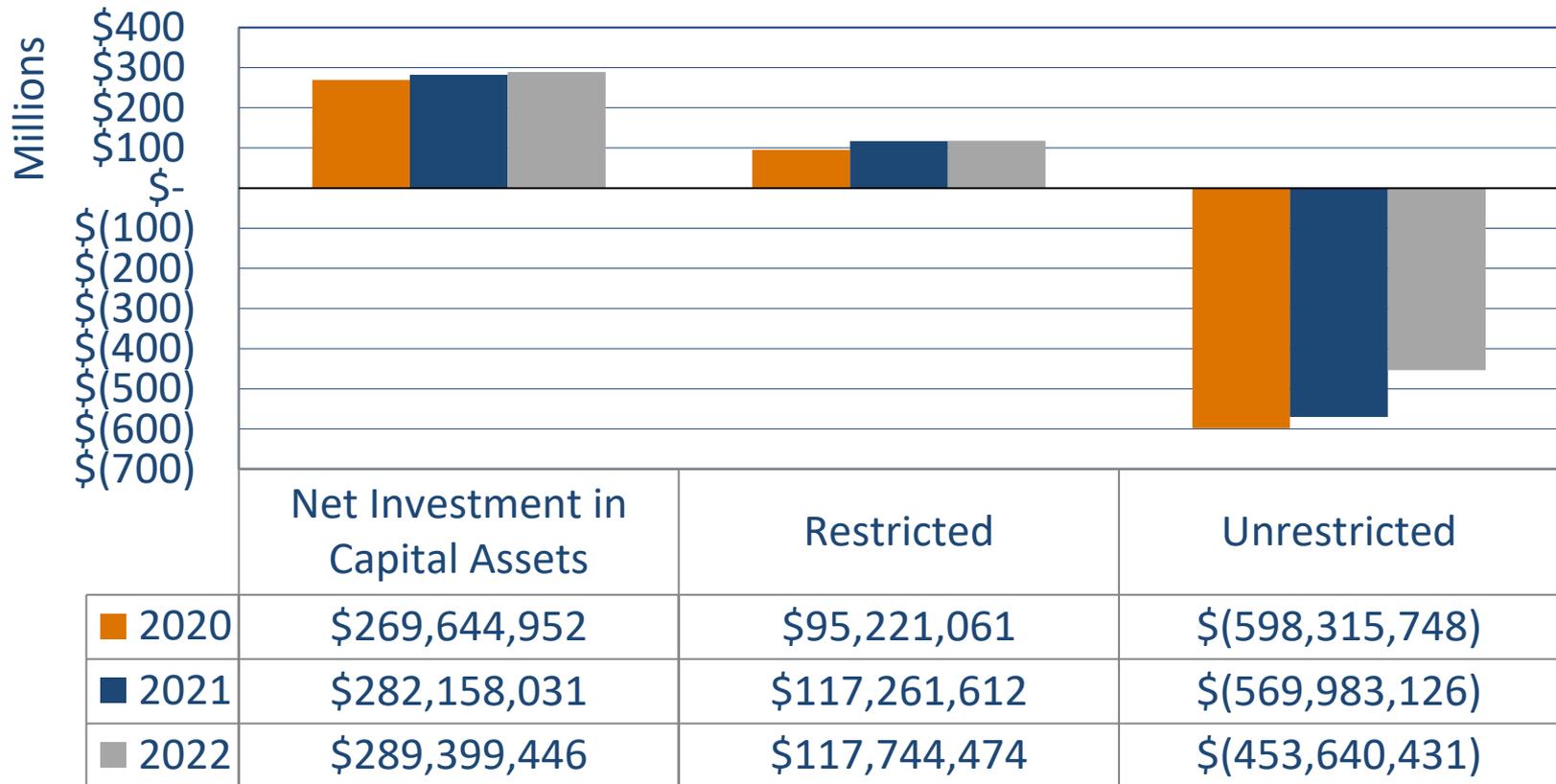
Government-Wide Financial Statements

Liabilities and Deferred Inflows of Resources



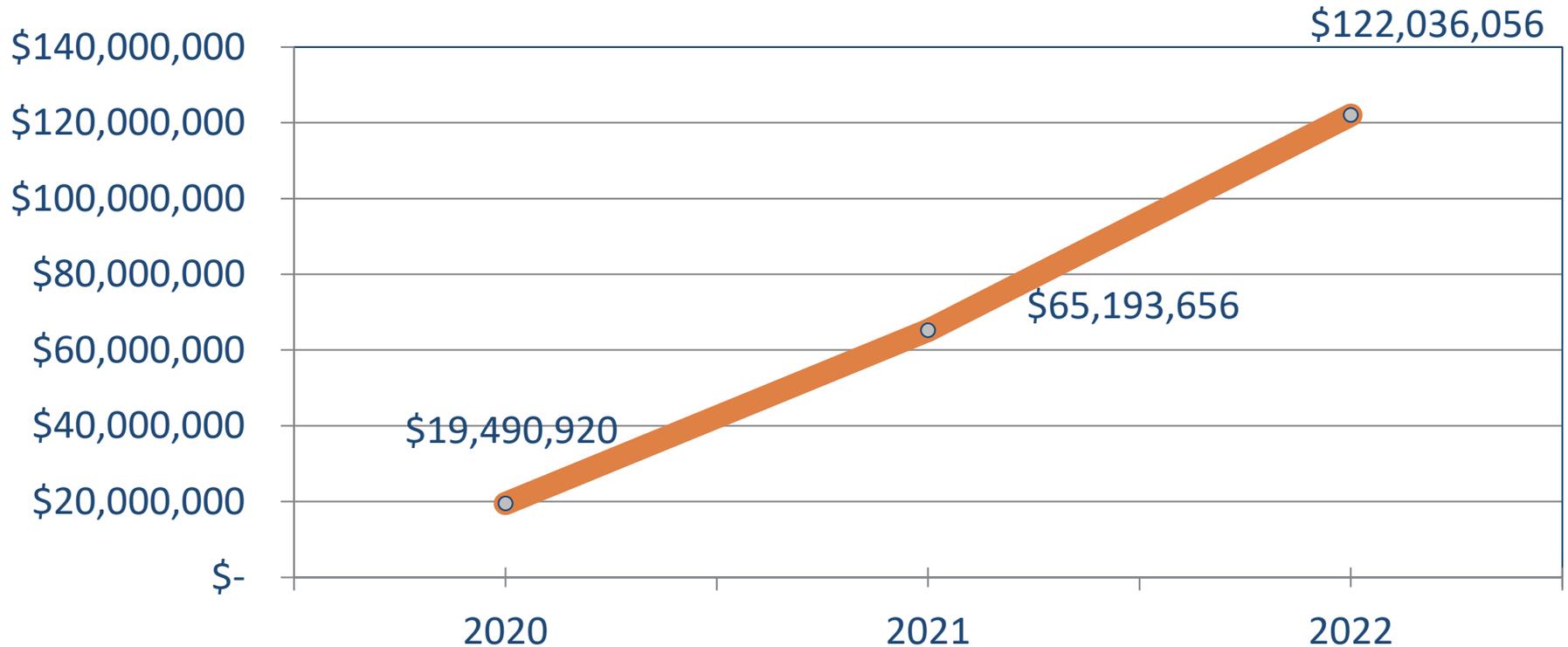
Government-Wide Financial Statements

Net Position



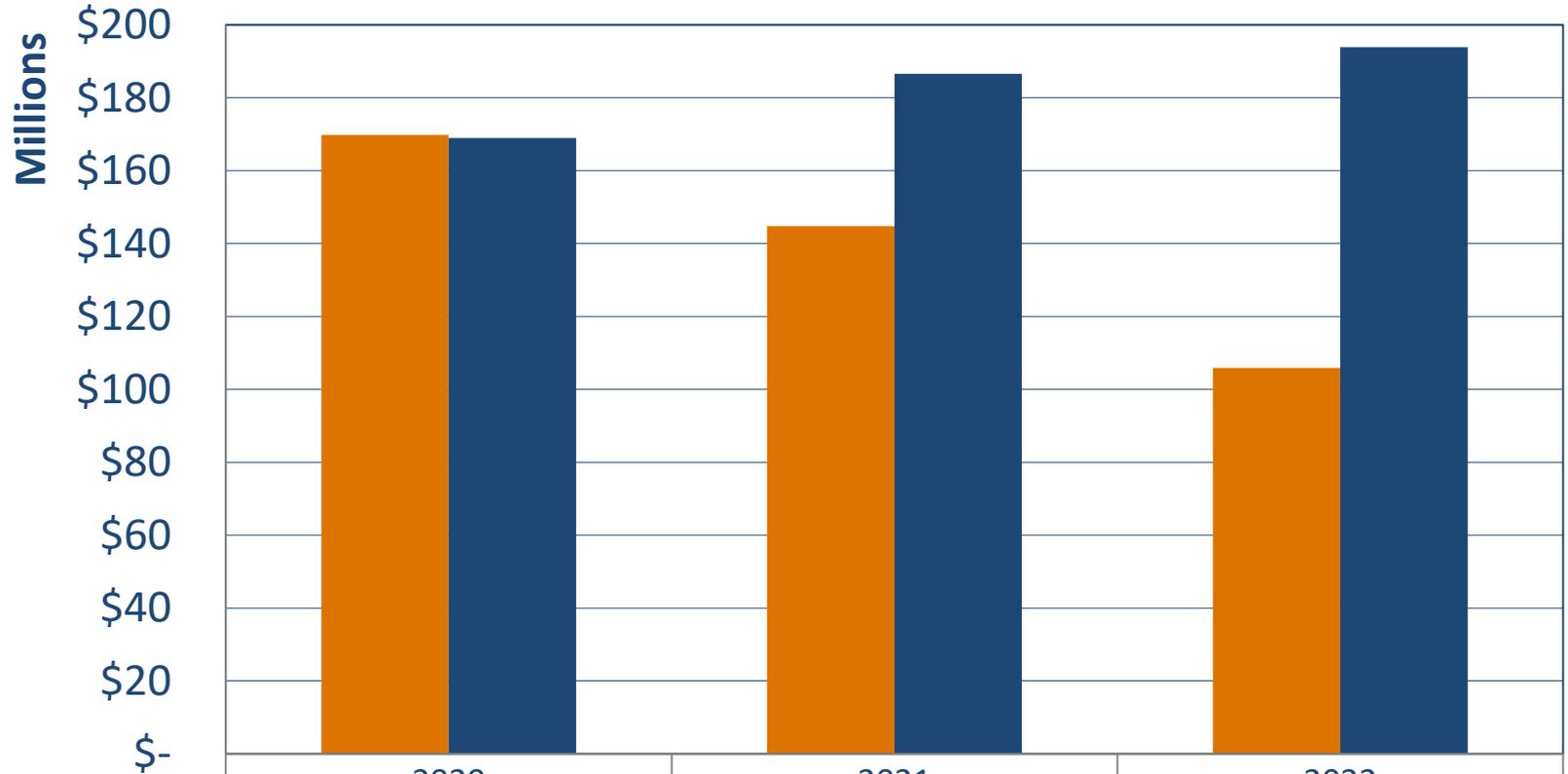
Government-Wide Financial Statements

Changes in Net Position



Government-Wide Financial Statements

Net Cost of Service to Tax Revenue



| | 2020 | 2021 | 2022 |
|---------------------|---------------|---------------|---------------|
| Net Cost of Service | \$169,809,025 | \$144,815,928 | \$105,838,829 |
| Tax Revenue | \$168,929,560 | \$186,596,334 | \$193,864,015 |

General Fund

Expenditure Coverage

| | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|-----------------------|-----------------------|----------------------|
| Committed Fund Balance | \$ 1,500,000 | \$ 9,800,000 | \$ 3,383,453 |
| Assigned Fund Balance | 113,349 | 2,436,475 | 6,397,688 |
| Unassigned Fund Balance | 20,326,889 | 22,477,829 | 44,935,389 |
| Total Unrestricted Fund Balance | <u>\$ 21,940,238</u> | <u>\$ 34,714,304</u> | <u>\$ 54,716,530</u> |
| Total Expenditures | <u>\$ 162,447,955</u> | <u>\$ 161,619,763</u> | <u>167,927,396</u> |
| Unrestricted Fund Balance as a % of Total Expenditures | <u>13.51%</u> | <u>21.48%</u> | <u>32.58%</u> |
| Number of months | 2 | 3 | 4 |

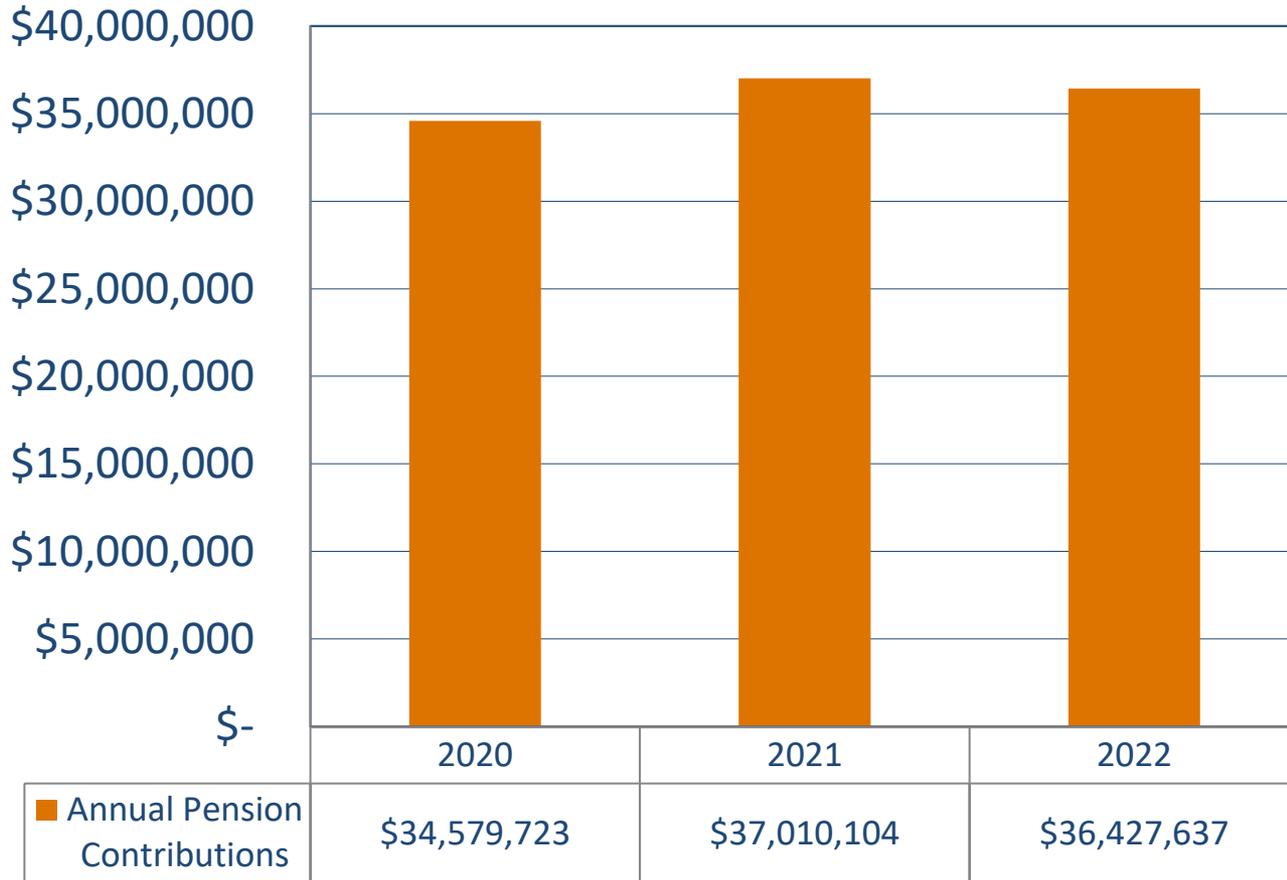
GFOA recommendation

No less than 2 months

Measure of City's ability to operate with no revenues using available fund balance.

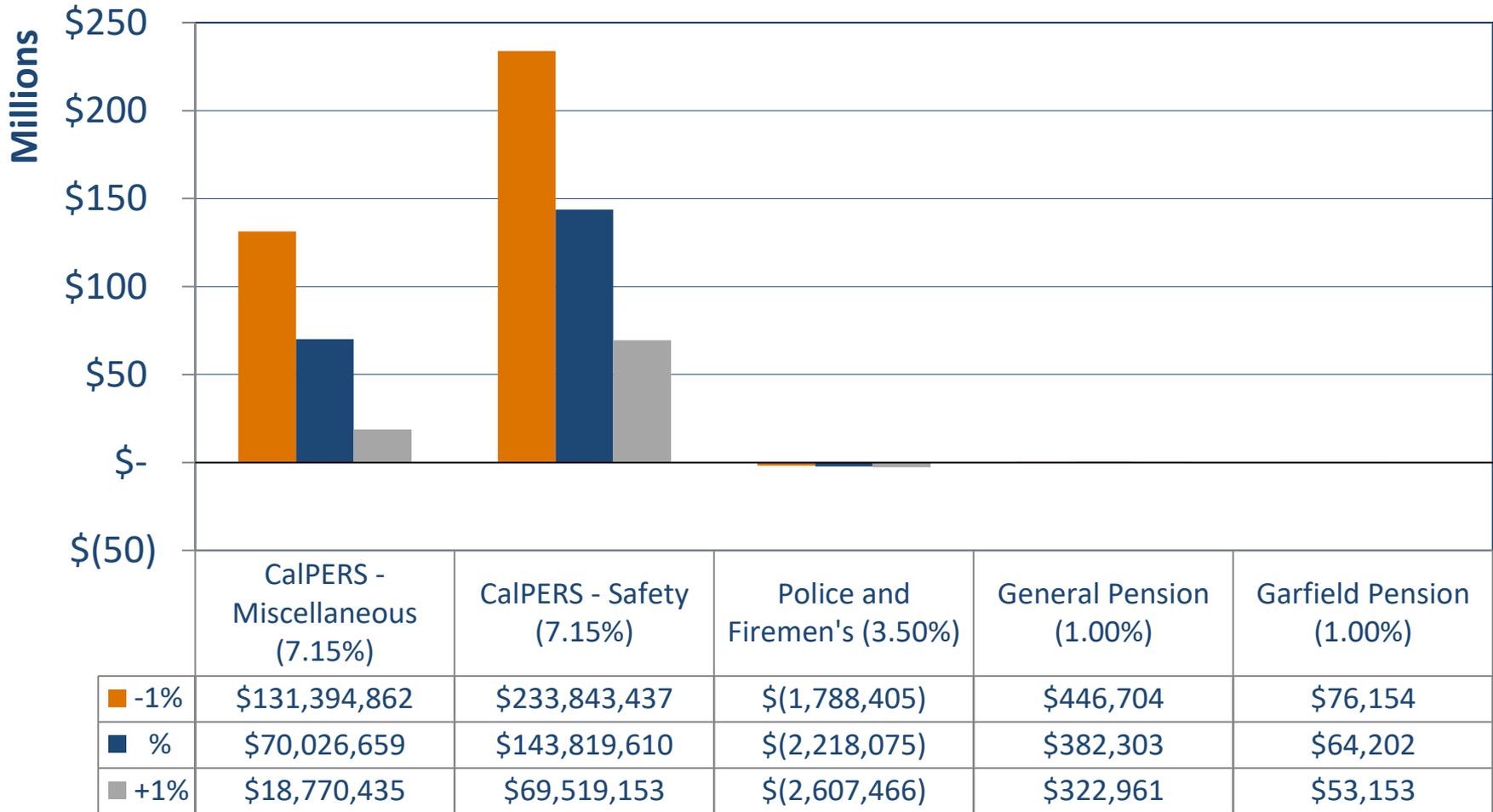
Pension Plan

City's Annual Pension Contributions



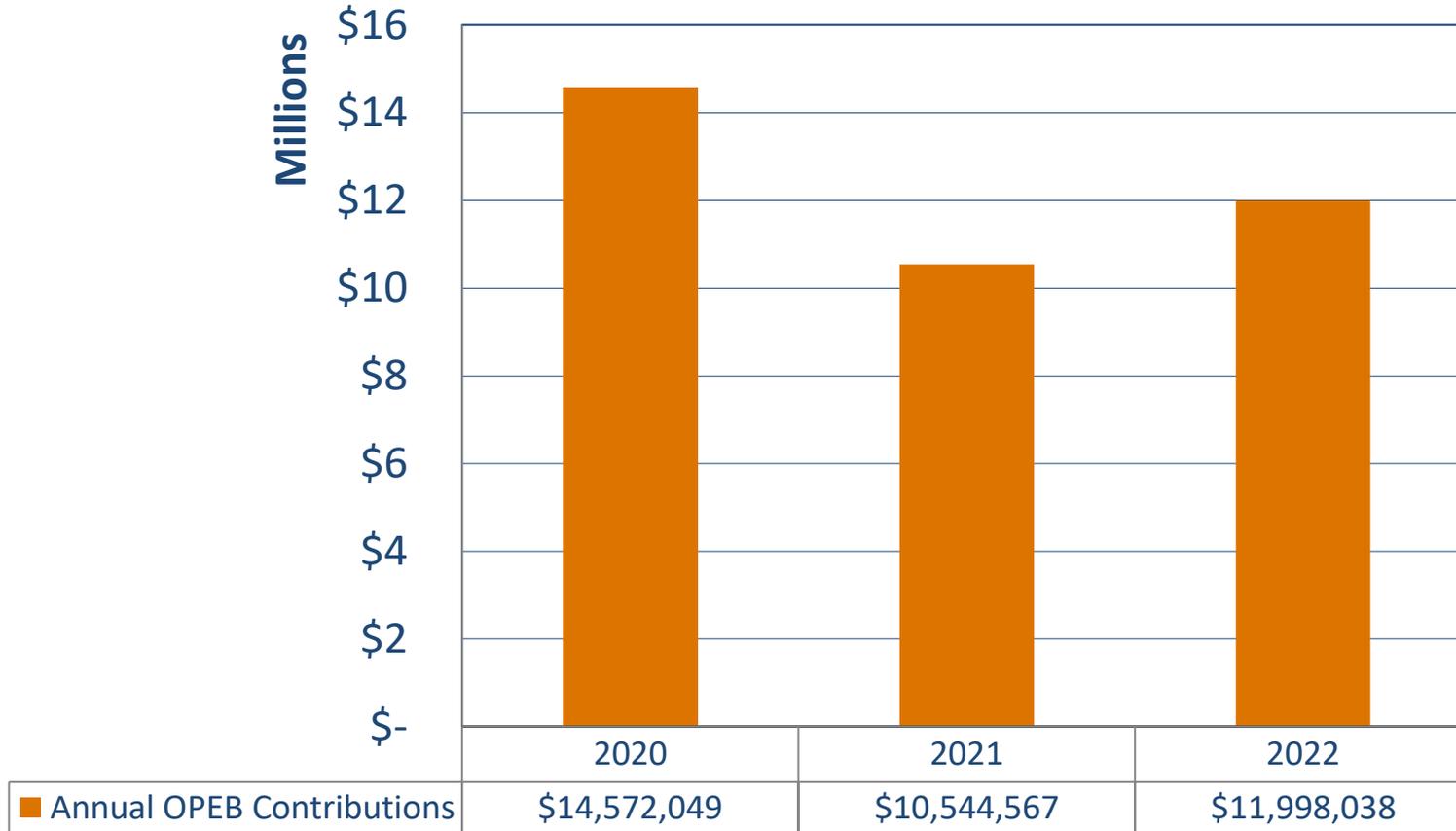
Pension Plan

City's Pension Plans Sensitivity to Discount Rate



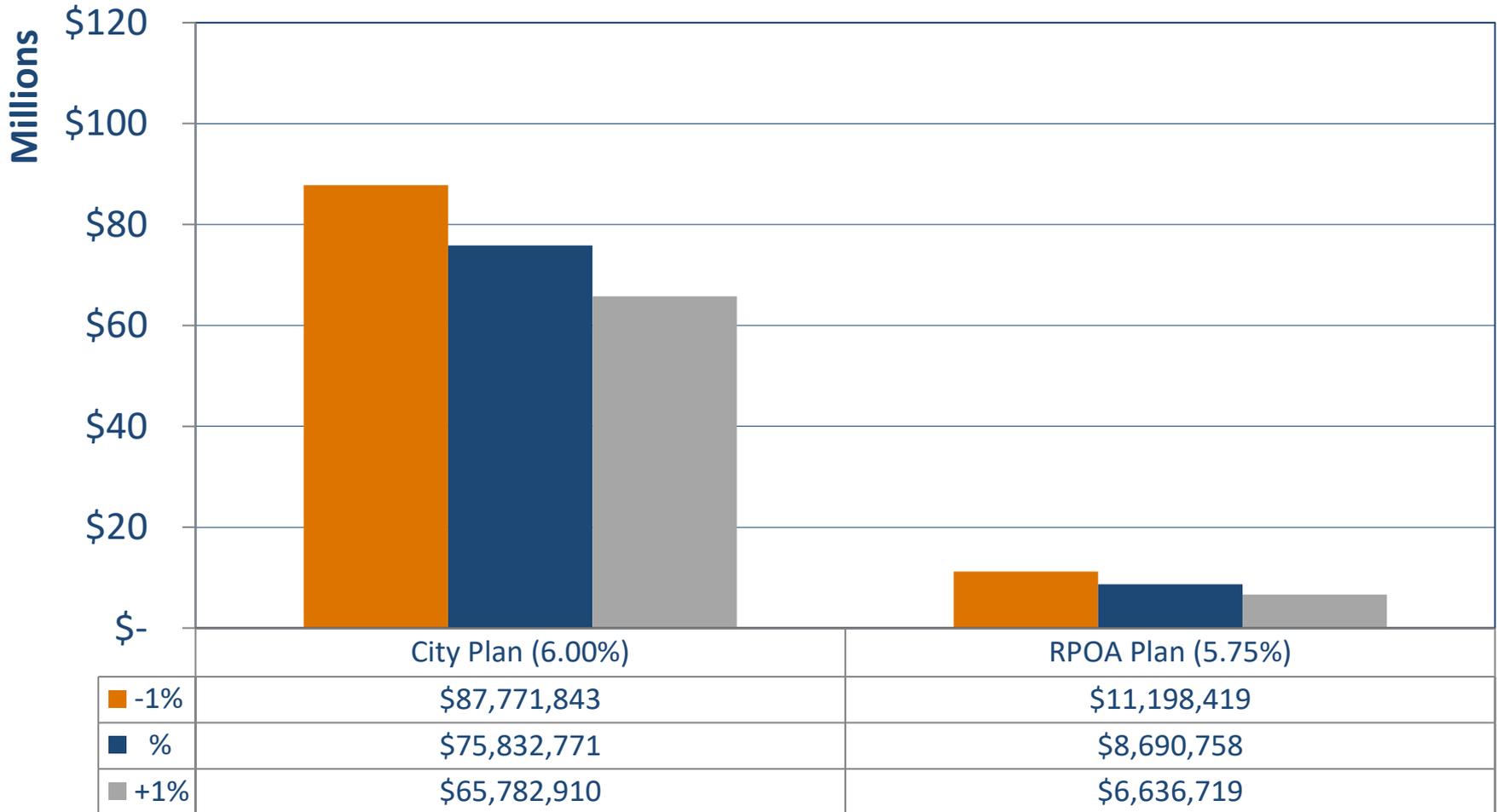
Other Postemployment Benefits

City's Annual OPEB Contributions



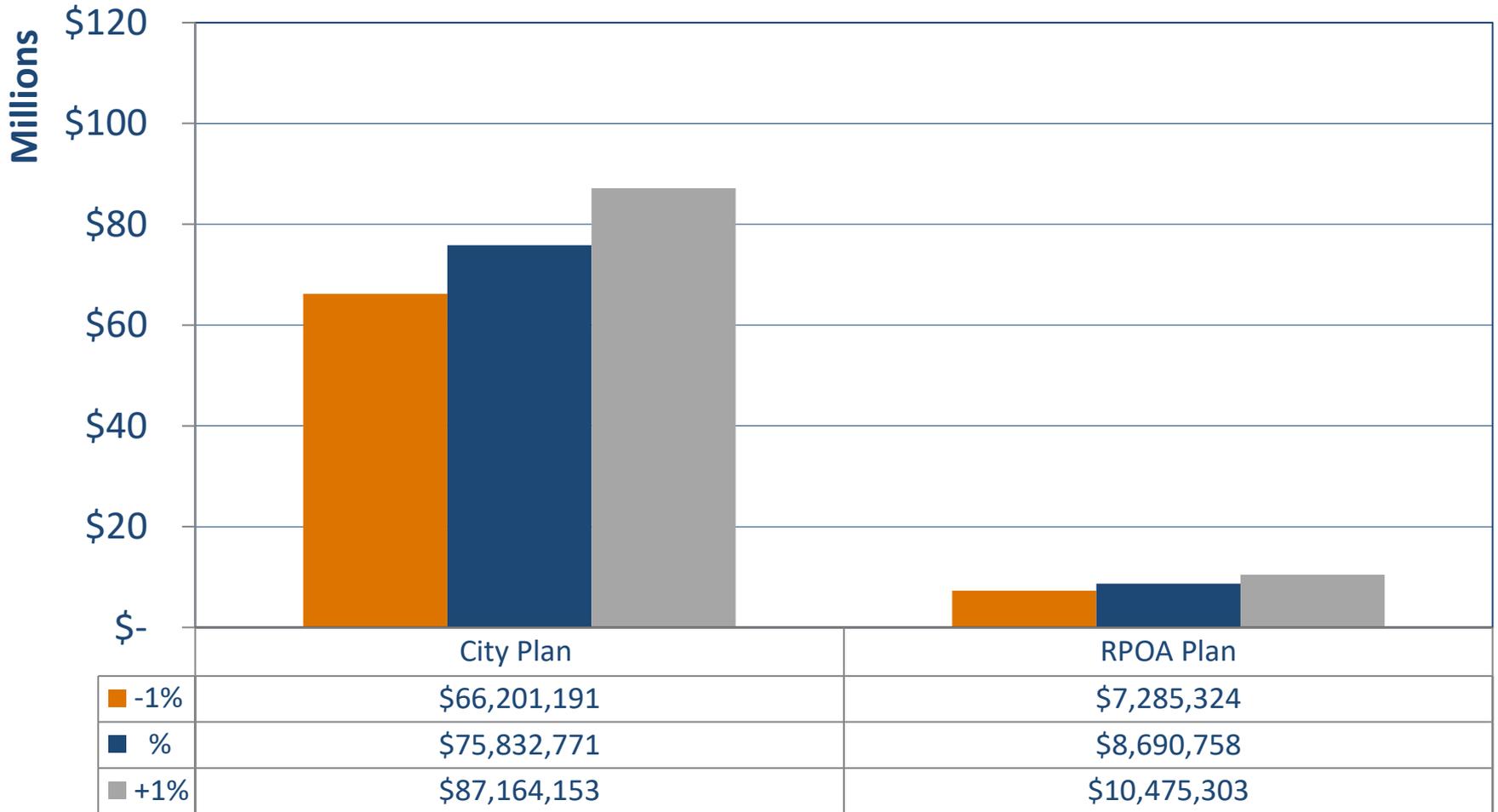
OPEB Plans

City's OPEB Plans Sensitivity to Discount Rate



OPEB Plans

City's OPEB Plans Sensitivity to Healthcare Trend Rate





Required Communications

• Our Responsibility Under U.S. GAAS

- Opinion on whether financial statements are fairly stated in accordance with U.S. GAAP
- Evaluate internal control over financial reporting including tone at the top
- Evaluate compliance with laws, contract and grants
- Ensure financial statements are clear and transparent
- Communicate with the governing body

• Management Responsibility

- Management is responsible for the financial statements
- Establish and maintain internal control over financial reporting
- Making all financial records available to us
- Establish internal control to prevent and detect fraud
- Inform us of all known and suspected fraud
- Comply with laws and regulations
- Take corrective action on audit findings

Required Communications

- Independence



- It is our responsibility to maintain independence
- We will maintain our independence by strict adherence to the AICPA and the Board of Accountancy rule
- Other than compiling the financial statements, no other services performed that could affect our independence

- Timing of the Audit



- Within the time frame communicated to the City in our engagement letters

- Significant Accounting Policies and Unusual Transactions



- GASB Statement No. 87
- GASB Statement No. 89
- GASB Statement No. 92
- GASB Statement No. 93
- GASB Statement No. 97
- GASB Statement No. 99

Required Communications

- Management Judgment and Accounting Estimates



Significant management estimates impacting the financial statements include the following:

- Useful lives of Capital Assets
- Investment valuations
- Pension Liability
- OPEB Liability
- Claim Liability

- Sensitive Disclosures



- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Long-Term Debt
- Net Position/Fund Balances
- Pension Plans
- OPEB Plans
- Commitments and Contingencies

Required Communications

- Difficulties Encountered in Performing the Audit  None.
- Significant Audit Adjustments and Unadjusted Differences Considered by Management to be Immaterial  To correct the FEMA grant revenue and receivables in fund 5001
- Potential Effect on the Financial Statements of Any Significant Risks and Exposures  No significant risks or exposures were identified. Legal matters and potential liabilities are disclosed in the financial statements.
- Disagreement with Management  None.

Required Communications

- Deficiencies in Internal Control over Financial Reporting



- City's financial condition
- Delays in PAF submission and approvals
- Segregation of duties in Payroll
- No documentation of the review of AIMS monthly claims bills payments.

Required Communications

- Representations Requested of Management  We obtained representations from management prior to issuance of our reports.
- Management Consultation with Other Accountants  We are not aware of any significant accounting or auditing matters for which management consulted with other accountants
- Other Material Written Communications  Other than the engagement letters and management representation letters, there have been no other significant communications
- Material Uncertainties Related to Events and Conditions  There were no material uncertainties related to events and conditions.
- Fraud and Illegal Acts  We have not become aware of any instances of fraud or illegal acts, which was not disclosed by the City

New Accounting Standards

2023

- GASB Statement No. 91 – Conduit debt
- GASB Statement No. 94 – Public-private partnerships
- GASB Statement No. 96 – Subscription-Based Information Technology Arrangements

2024

- GASB Statement No. 100 – Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62

2025

- GASB Statement No. 101 – Compensated Absences

Questions



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**Thank You
For Allowing Us to Provide Audit Services
to the City of Richmond**

