

LAFCO

*Yolo County Local Agency Formation Commission
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To: Olin Woods, Chair, and Members of the
Yolo Local Agency Formation Commission

From: Elisa Carvalho
Interim Executive Officer

Date: July 25, 2011

Subject: Direct LAFCO Staff to Solicit a Quote from the Yolo County Outside Auditor to Conduct an Audit of the Yolo LAFCO Financial Statements for Each of the Last Three Fiscal Years and One Subsequent Annual Audit for Fiscal Year 2011/12 to Coincide with the County Contract for Audit Services

Recommended Action

Direct LAFCO Staff to Solicit a Quote from the Yolo County outside auditor (Vavrinek, Trine, Day & Co., LLP) to conduct an audit of the Yolo LAFCO financial statements for each of the last three fiscal years and one subsequent annual audit for Fiscal Year 2011/12 to coincide with the County contract for audit services.

Fiscal Impact

If the Commission directs staff to work with the Yolo County outside auditor, the firm would provide a quote to LAFCO for audit services. Upon review and approval by the Commission, the quote would be formalized with a contract. Other LAFCOs pay up to \$10,000 for annual audits performed with or by the County or by private firms.

Reason for Recommended Action

Yolo LAFCO has not received any type of financial audit or review since 2000, when it was part of the Yolo County General Fund. LAFCO audits are not required by law; however, an

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independent financial review provides accountability and transparency and protects the Commission and staff.

Background

Yolo LAFCO has not had an audit since 2000, when all LAFCOs became independent from the County. Prior to 2000, Yolo LAFCO was included in the Yolo County Comprehensive Annual Financial Report (CAFR). The CAFR is a report on the County's financial position and activity, which is audited by an independent firm of certified public accountants. The financial report covers all funds and activities of the County and its component units.

Component units are legally separate entities that operate under the auspices of the County and provide services that supplement County services. Yolo LAFCO is not a component unit of the County. Due to changes in reporting requirements for counties, the Yolo County Auditor Controller has been analyzing districts and agencies for which it holds funds. Currently, the County is trying to divest itself of the responsibility of financial reporting for agencies that are not component units.

There are financial review options that Yolo LAFCO can consider besides a full audit; however, these do not express an opinion or provide reasonable assurance about whether the financial statements are free of material misstatements. These options include an Agreed Upon Procedures Report and a Review. In a Review, the Yolo County Auditor-Controller's Office will simply notify an agency of any problems that need to be fixed. In an Agreed Upon Procedures Report, the Auditor's Office works with an agency to establish mutually accepted financial procedures that are supposed to be implemented by the agency and reviewed by the auditor. These reports do not provide a high level of examination or confidence.

An internal audit from the Yolo County Auditor-Controller's Office staff does not provide a viable option because it may present a conflict of interest. The Yolo County Treasurer's Office holds Yolo LAFCO funds. The Auditor-Controller's Office was combined with the Treasury Tax Collector Office several years ago. Although safeguards were put into place to regulate and segregate responsibilities outlined in state law between each Department, this may be an issue. Additionally, with limited staffing resources in the Auditor-Controller's Office, County staff does not have the time to perform an audit of LAFCO financial statements.

Yolo LAFCO can issue a request for proposal for a separate outside audit independently or jointly with other LAFCOs; however, this approach has had mixed results for other LAFCOs. Four LAFCOs in southern California successfully issued a joint RFP for annual audit services from a private firm. They are considering adding a fifth LAFCO to the RFP process after the current contract expires. Three LAFCOs in northern California attempted to do a joint RFP several years ago: Shasta, Placer, and El Dorado. El Dorado LAFCO was dropped from the contract, prior to completion, because it was too small. Shasta LAFCO, which was not dropped, was not satisfied with

the audit it received. Some LAFCOs have reported difficulty in obtaining firms to do independent audits because of their size.

Contracting with Vavrinek, Trine, Day & Co., LLP (VTD), the County's outside auditor, for audit services may provide Yolo LAFCO the best option for service. Yolo LAFCO may realize some cost savings by agreeing to use VTD, since Yolo LAFCO utilizes the County's financial system and procedures and Yolo LAFCO funds are in the County Treasury. VTD can also validate certain Yolo LAFCO accounts through the County.

Yolo LAFCO can also realize additional cost savings if it performs its audit in the "off season" and limits the number of years that are audited. A typical time frame for an audit is between August and September. It would be difficult for VTD to agree to audit LAFCO at this time. Initiating an audit in January would allow more time for VTD to provide services, which they may be able to do at a lower cost, since the audit firm would not be as impacted.

Yolo LAFCO has not been audited for eleven years. Ideally, an audit should be performed for every one of those years to be able to express an opinion or provide reasonable assurance about Yolo LAFCO financial statements. Unfortunately, the cost to audit this many years would be prohibitive. Additionally, financial records are only available as far back as 2002. Even if the audit did cover the last nine years for which financial information is available, it would not provide any greater assurance as the auditor cannot review the last fund balance for which an opinion has been issued. The auditor would have to provide a disclaimer on the first year. After establishing a base year, the auditor could get clean opinions on Yolo County financial statements. As a result, an audit of the last three fiscal years, beginning in Fiscal Year 2008-09, would be appropriate.

Although Yolo LAFCO has not received a formal audit over the last several years, its funds have been closely reviewed and monitored by Yolo LAFCO staff and the Auditor-Controller's Office. Yolo County has policies and procedures in place that provide a high level of control and oversight. Performing an audit of Yolo LAFCO financial statements would provide a greater degree of formal, independent review and assurance.