

M E M O R A N D U M

TO: Local Agency Formation Commission

FROM: Stephen Lucas, Executive Officer

SUBJECT: **Agenda Item 6.1 - Executive Officer's Report**

DATE: October 26, 2016 for the meeting of November 3, 2016

ADMINISTRATION: Matson & Isom will be conducting LAFCOs annual audit for FYE 2015/16 on Tuesday, November 15, 2016. The formal Audit Engagement Letter is attached for review.

PROJECT NOTES: None

CALAFCO: The CALAFCO Annual Conference was held October 26-28 in Santa Barbara which also included a Board of Directors meeting and annual elections for the public and city board members. Butte LAFCO was represented by Commissioners Connelly and Duncan, the Executive Officer, Deputy Executive Officer and Legal Counsel. The Executive Officer was a speaker on disadvantaged unincorporated communities and Legal Counsel was on a panel discussing CEQA issues.

LEGISLATION: No new update, all quiet in Sacramento for now.

GENERAL NOTES: Staff received a Public Records Act request on October 13, 2016 from a law firm representing the California Water Service requesting all materials related to the provision of domestic water services in the Oroville region.

APPLICATION ACTIVITY

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<i>Project Status As of October 26, 2016</i>								
File	Applicant	Project Name	Date Application Received	Certificate of Filing	LAFCO Hearing Date	Certificate of Completion	SBE Submittal Date	Additional Comments
11-06	Butte County	CSA No. 114 - Expansion of Powers	02/02/11	N/A	pending	N/A	N/A	Incomplete - On Hold
15-17	Chico	Chapman Annexation No. 1	04/17/15	05/17/15	07/02/15			To be Recorded 7/2020
15-18	Chico	Mulberry Annexation No. 1	04/17/15	05/17/15	07/02/15			To be Recorded 7/2020
16-05	LAFCO	CSA MSR / SOI Plan Update	N/A	N/A	09/01/16	N/A	N/A	Approved - completing final doc
16-06	BWD	Singh-Etcheverry Annexation No. 1	05/27/16	07/19/16	09/01/16	10/05/16		Approved- Recorded in Sutter Co too
16-07	Chico	E Lassen Ave Annexation No. 10	03/29/16	04/26/16	06/02/16	07/19/16	08/22/16	Complete
16-08	Oroville	Ext of Services - 67 Riverview Terrace	04/06/16	N/A	08/04/16	N/A	N/A	Island annexation application received
16-09	Chico	Ext of Services - 14 Mayfair Drive	06/28/16	N/A	08/04/16	N/A	N/A	Approved
16-10	Chico	Ext of Services - 2503 Hwy 32	06/06/16	N/A	08/04/16	N/A	N/A	Approved
17-01	Chico	Humboldt Road Annexation No. 19	08/08/16	08/23/16	09/01/16			Processing
17-02	Oroville	Riverview Terrace Annexation No. 1	09/19/16	10/13/16	11/03/16			Processing
17-03	LOAPUD	Olive Hwy Annexation No. 1	09/19/16	10/11/16	11/03/16			Processing
17-04	Chico	MSR-SOI Plan Update		NA		NA	NA	Letter agreement Oct. 2015
17-05	Chico	Ext. of Services - 85 Rose Avenue	10/12/16	NA	12/01/16	NA	NA	In progress
SP-57	LAFCo	Gateway at Butte Creek						Consultation

Attachments: 1. Audit Engagement Letter of October 5, 2016



October 5, 2016

The Commissioners
Butte Local Agency Formation Commission
1453 Downer Street, Suite C
Oroville, CA 95965

3013 Ceres Avenue
Chico, CA 95973
530.891.6474

Dear Commissioners:

We have been engaged to audit the financial statements of Butte Local Agency Formation Commission (LAFCo), for the year ended June 30, 2016. A copy of the engagement letter for the year ended June 30, 2016, is enclosed for your reference. Please feel free to contact us if you have any questions regarding the audit engagement letters or this letter. Professional standards require that we provide you with the following information related to our audit.

The objectives of this correspondence are as follows:

- To discuss the auditors' responsibilities under auditing standards generally accepted in the United States of America (GAAS);
- To provide those charged with governance an overview of our engagement, including the planned scope and timing;
- To identify significant areas of accounting and auditing emphasis, and how we propose to address these areas; and
- To discuss the concept of materiality in planning and executing the audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of the audit we will consider the internal control of LAFCo. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

Audit Planning and Risk Assessment

The initial phase of our audit involves various planning procedures, including the following:

- Developing an understanding of internal and external factors affecting LAFCo, such as changes in management or regulation.
- Performing preliminary analytical procedures, covering all accounts, to identify any significant new accounts or programs and any significant changes from the prior year.
- Assessing various organizational risks such as those related to LAFCo's operating characteristics and environment, information technology, financial characteristics and business strategies. This also involves discussing with management what they see as the significant risks to LAFCo.
- Obtaining an understanding of LAFCo's internal controls, including the control environment, management's risk-assessment process, management's consideration for internal controls, and management's internal control monitoring process.
- Performing an evaluation of the design of internal controls relating to each significant transaction cycle as well as financial reporting to identify weaknesses in the system of controls that may contribute to the risk of a material financial statement error occurring without detection.
- Assessing of fraud risk, including consideration of the requirements of AU-C 240, *Consideration of Fraud in a Financial Statement Audit*. This also includes conducting a fraud brainstorming session with all members of the audit team to discuss the potential for material misstatement due to fraud and to enforce the concept of approaching the audit with professional skepticism.
- Designing our audit procedures and taking into consideration our preliminary analytical procedures, various risk assessments, our understanding of the various aspects of LAFCo's internal controls, and those audit areas that are considered to be significant.

Audit Fieldwork

Depending on the significant areas selected and the extent of testing that is determined to be appropriate during the planning process, we will perform audit procedures as part of our audit fieldwork. These procedures include inspection of documents, recalculation of various amounts, inquiry of appropriate personnel as well as other means to verify account balances. Significant accounts or risk areas are identified as follows:

- Changes in the control environment (e.g., new systems, standards, regulations, products, changes in personnel, etc.) and LAFCo's financial statement closing process.
- Cash and cash equivalents.
- Accounts payable and accrued expense and cut off.
- Other postemployment benefit and pension liabilities.
- Long-term debt.
- Possible unrecorded liabilities.
- Revenue recognition.
- Salary and benefits expense.
- Susceptibility of accounts to material misstatement arising from either error or fraud.
- Budget to actual variances.

Materiality

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 2 (CON-2), *Qualitative Characteristics of Accounting Information*, defines materiality as the "magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement." In planning and performing the audit, we use professional judgment to determine a level of materiality. Factors considered in this evaluation include the components of the financial statements believed to be the most critical to users and the extent of adjustments detected in prior audits.

Audit Completion and Reporting

Once audit fieldwork has concluded, a complete final review will be performed of the audit workpapers, ensuring that any outstanding questions or issues have been resolved and that the testing and results are properly documented. Deliverables will be as follows:

- Draft financial statements, including footnotes.
- Draft letter of required communication to those charged with governance that includes information on the auditors' responsibility in performing the audit and significant findings noted during the audit process that are required to be reported, such as any significant or unusual transactions or any significant sensitive estimates.
- Draft report on internal control that reports any significant deficiencies or material weaknesses in internal controls that were noted during the audit process, if applicable.

All of the draft documents are reviewed with management and those charged with governance before the final financial statements and correspondence letters are issued.

Communication

Effective communication between the auditor and those charged with governance is emphasized in the recent audit standards, and we feel it is paramount to a truly effective and successful audit. For these reasons, we encourage you to contact us with any questions or concerns that you may have regarding any aspect of the audit. The following points may assist you in this critical communication effort:

- Are there any matters you feel warrant particular attention during the audit?
- Are there any areas where you request that additional or special procedures be performed?
- Describe how you exercise oversight of LAFCo's internal controls.
- Describe your understanding of the risks of fraud at LAFCo.
- Are you aware of any suspected or actual fraud at LAFCo?
- Are there any other matters you think we should be aware of?

Our contact information is listed below, and we encourage you to maintain open communication with us regarding the above points and any other matters you deem appropriate.

Christy M. Norton, CPA 530-891-6474 christy.norton@kcoe.com

The Commissioners
Butte Local Agency Formation Commission
October 5, 2016
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Closing

The information in this letter is intended solely for the use of those charged with governance of LAFCo and is not intended to be and should not be used by anyone other than these specified parties.

We sincerely appreciate the opportunity to provide services to LAFCo and hope you find the information included in this correspondence useful and informative. If you have any questions or wish to discuss any of the items further, please let me know.

Very truly yours,

KCoe Isom, LLP

A handwritten signature in black ink that reads "KCoE Isom, LLP". The letters are cursive and somewhat stylized, with the "K" and "I" being particularly prominent.

CMN:ahp