

FINANCE MEMORANDUM

#09-16

DATE: October 8, 2009

TO: Honorable Mayor Kathleen M. Novak and City Council Members

FROM: Bill Simmons, City Manager *WAP*
Shawn Cordsen, Finance Director

SUBJECT: 2008 Management Letter Response

UPDATE:

Attached is the Management letter from Swanhorst & Company, LLC the City's independent auditor.

In response to the Management Letter comments provided by the auditors regarding fiscal year 2008, staff has compiled the following:

Retiree Healthcare Benefits –

The City has initiated the processes of obtaining an updated actuarial valuation. Staff has collected several verbal bids from various providers and is currently in the process of evaluating that information. Staff fully intends to engage a provider and complete the actuarial valuation prior to the end of calendar year 2009.

CDBG Fund –

As part of the 2010 Proposed Budget Document the CDBG Fund has been condensed into the General Fund as to eliminate the negative fund balance reporting issue. Furthermore, staff intends to bring forward an ordinance which will amend the 2009 budget in an effort to balance the revenue and expenditure budget appropriations.

Capital Assets –

Staff has implemented an in-depth review and analysis of the City's capital asset records and incorporated sample physical counts to ensure the accuracy of the data. In addition, staff will put to use the Capital Asset Module purchased as part of the new financial management system in an effort to better maintain the records of the City.

STAFF REFERENCE:

If Councilmembers have any comments or questions, you may contact Shawn Cordsen at scordsen@northglenn.org or at 303-450-8719.



July 31, 2009

Honorable Mayor and Members of the City Council
City of Northglenn
Northglenn, Colorado

We have audited the financial statements of the City of Northglenn (the "City") as of and for the year ended December 31, 2008, and have issued our report thereon dated July 31, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or regulations that do not have a direct and material effect on the financial statements.

In planning and performing our audit of the financial statements, we considered the City's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus, except as follows:

For the year ended December 31, 2008, the City removed the Historic Preservation Fund from its financial statements, and separated the financial transactions of the Stormwater Fund into an individual fund.

The City adopted new accounting standards relating to healthcare benefits paid to retirees. At December 31, 2008, a liability of \$403,000 was reported in the financial statements to comply with these standards.

In 2011, the City will be required to adopt new accounting standards that require reporting of additional classifications of fund balance to reflect City Council's plans and other constraints. In addition, the reporting of certain funds may require changes, depending on their source of revenue. Management should begin planning for these new standards since the budget will require changes in advance of adopting the standards, and City policies may require revisions.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. We evaluated the key factors and assumptions used to develop the significant estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We provided management with a schedule of audit adjustments. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). Management has determined that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process, except as follows.

We proposed significant adjustments to the financial statements to properly report grant revenues not paid within sixty days of year end. We recommend that the City implement year-end procedures to identify receivables that are not received within the availability period of sixty days. These revenues should be deferred at year end.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and the responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

The City experienced significant staff turnover during the audit process. This was the primary reason for the delay in completing the audit. The accounting records were not complete when we began the audit process, and much of our audit work was completed months later.

Other Information

Retiree Healthcare Benefits

The City revised its retiree healthcare plan effective August 1, 2009. These revisions will change the liability reported in the financial statements. To measure and properly report this liability, we recommend that the City obtain an updated actuarial valuation before the end of calendar year 2009.

CDBG Fund

The CDBG Fund ended the year with a negative fund balance. This occurred because the City must have qualifying expenditures under this grant award before reimbursements are received. In addition, the supplemental budget approved for the CDBG Fund allowed for expenditures in excess of the resources available, including revenues and fund balance. We recommend that the City consider reporting these grants as part of the General Fund, to avoid similar compliance issues in the future.

Capital Assets

The City has encountered ongoing difficulties with its capital asset records. We recommend that the City implement additional procedures to ensure the capital asset records are complete, accurate, and reconciled to the balances reported in the financial statements.

Conclusion

We would like to thank Shawn Cordsen and all City staff for their assistance during the audit process. We appreciate the City's cooperation and assistance.

This report is intended solely for the information and use of the City Council and management of the City of Northglenn and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Swanhorst & Company LLC