

City of Littleton, Colorado

**Audit Wrap Document
August 22, 2017**



This presentation was prepared as part of our audit, has consequential limitations, is restricted to those charged with governance and, if appropriate, management, and is not intended and should not be used by anyone other than those specified parties.



August 22, 2017

Honorable Mayor and Members of City Council
City of Littleton, Colorado
2255 West Berry Avenue
Littleton, Colorado 80120

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We presented an overview of our plan for the audit of the financial statements of the City of Littleton, Colorado (the City) as of and for the year ended December 31, 2016, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit. This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Anton Collins Mitchell LLP

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Status of Our Audit

We have completed our audit of the financial statements of the City of Littleton, Colorado (the City) as of and for the year ended December 31, 2016. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We issued an unmodified opinion on the financial statements.
- Our responsibility for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the City and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Anton Collins Mitchell (ACM) were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of City personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the City's accounting practices, policies, and estimates:

The City's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- During fiscal year 2016, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this Statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.
- During fiscal year 2016, the City implemented GASB Statement No. 77, *Tax Abatement Disclosures*. The primary objective of this Statement is to enhance the disclosure regarding tax abatement agreements entered into by the City including descriptive information and dollar amounts of taxes abated.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The City's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2016.

Primary Areas of Focus and Considerations and Findings

Revenue Recognition: The City's major source of revenues consists of property taxes, sales and building use tax, intergovernmental grants and contribution, and charges for services. The City records revenues when earned. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Accounts Receivable and Allowances: Accounts receivable represent amounts due from citizens and business for property and sales taxes, customers for utilities and emergency medical transportation services, and other governmental entities. The City determined approximately \$838,859 of receivables for the emergency medical transportation services was uncollectible and recorded an allowance for this amount.

Capital Assets: Capital assets of the City continue to be a significant area of the City's financial statements. Therefore, as part of the audit, we paid particular attention to the costs of newly acquired assets and depreciation expense of these assets.

Results of Our Audit

Capital Lease Obligations: The City currently has two capital lease obligations in its governmental activities, including a premium, totaling approximately \$8.0 million. In addition, the City has an assignment certificate and revenue loan payable, including premium, in its business-type activities, totaling approximately \$28.1 million. Accordingly, we have applied certain procedures over balances, future maturities, and accrued interest associated with the applicable leases, along with compliance with the lease agreements. It appears that the City is properly accounting for these obligations.

Pension Reporting: The City has a defined benefit plans administered by the Fire and Police Pension Association of Colorado ("FPPA"). The FPPA is a cost-sharing, multiple-employer defined benefit plan. The City implemented the pension standards, referred to above, during the fiscal year ended December 31, 2015. As such, the City has reported a net pension asset for the plan in their financial statements. In addition, changes in net pension asset were recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of change.

Evaluation of Going Concern: No going concern issues were noted during our audit.

Evaluation of Estimates: Estimates were determined to be reasonable, and free of bias.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

QUALITY OF THE CITY'S FINANCIAL REPORTING

A discussion was held regarding the quality of the City's financial reporting, which included the following:

- Qualitative aspects of significant accounting policies and practices
- Our conclusions regarding significant accounting estimates
- Significant unusual transactions
- Financial statement presentation
- New accounting pronouncements
- Alternative accounting treatments

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we did not identify any deficiencies in the City's internal controls over financial reporting that were considered to be material weakness.

We have communicated to management the following deficiencies in internal control:

Appropriations - The City's annual budget is updated on an annual basis for transactions approved by City Council which require additional appropriations. There were times during the year where spending for specific projects, which were not part of the original line item budget, was incurred prior to Council approval. We note that, in accordance with legal requirement, as of year-end, there was no spending in excess of budgeted amounts at the fund level. Additionally, management has implemented an internal policy in 2017 to include additional appropriations exceeding a determined threshold in the transaction approval to Council.

Recordkeeping - During our audit testing, the City was unable to provide an invoice selected as part of testing. The availability of records and documentation can be critical to an organization in the event of an audit by federal agencies, a lawsuit, an insurance claim, or any number of other circumstances. We recommend the City adhere to the established invoice retention policy for purchases and ensure the appropriate individuals are made aware of the policy.

Internal Control Over Financial Reporting

P-Card Purchases - During our testing of P-Card transactions, it was noted that a number of expense reports did not have the proper supporting invoice/receipt support, expenses lacked the appropriate approvals, and certain taxes were charged to City P-Cards that should not have been charged. We recommend the City adhere to the established review and approval process outlined in the P-Card Policy. Additionally, we recommend that the City work with significant vendors to ensure the City of Littleton is shown as tax-exempt within vendor systems.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the City's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the City's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated December 7, 2016 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.

Significant Accounting, Reporting and Other Matters

The following are the most significant standards that have been released by the Governmental Accounting Standards Board (“GASB”) that will impact the City in upcoming years:

Statement No. 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

Addendum

ACM was asked by City council to provide insight into ways the City may incorporate transparency and fiscal monitoring into the City's processes. Attached to this document (link also provided below) is an article recently released by the Government Finance Officers Association (GFOA), highlighting recent successes of the City of Cincinnati, Ohio in implementing these concepts.

<http://www.gfoa.org/cincinnati-story>