



# City of Pflugerville

## Legislation Text

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**File #:** RES-0510, **Version:** 1

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Discuss and consider action to approve a resolution accepting the amended fiscal year 2017 audit.

The City followed routine, established procedures in working with the auditor toward completion of the independent audit of the City's 2017 financial statements.

1. On July 25, 2017, the City approved Resolution 1570-17-07-25-0436, selecting Davis, Kinard & Co, PC to perform the independent audit the City of Pflugerville for fiscal year 2017.
2. On October 25, 2017, the City was notified that Davis, Kinard & Co, PC was joining the firm Eide Bailly, LLP effective December 4, 2017.
3. On January 26, 2018, the City and auditor began reviewing the City's draft financial statements for fiscal year 2017.
4. On March 8, 2018, the fiscal year 2017 financial statements and audit report were presented to the Finance and Budget (FAB) Committee by an audit partner of Eide Bailly. Following the comprehensive review of the financial statements, FAB recommended action by the City Council to accept the audit as presented. During this meeting, the audit partner stated that there were no findings or material adjustments for the fiscal year 2017 financial statements.
5. On March 27, 2018, the City Council adopted Resolution 1622-18-03-27-0503 Accepting the Fiscal Year 2017 Audit as recommended by FAB following their review.
6. On March 29, 2018, after City Council acceptance of the audit, Finance staff and the auditor completed discussions regarding a change to the financials. Council members were notified of this change. The change was related to the treatment of transactions between the City and the Pflugerville Community Development Corporation (PCDC).
  - a. From fiscal year 2010 to 2016, the City received reimbursements from the PCDC for annual debt payments related to certain debt issuances. These transactions were accounted for on an annual basis with the long-term arrangement between the two parties outlined in the notes to the financial statements.
  - b. The City's financial statements for fiscal years 2010-2016 were audited with no adjustments related to the financial treatment of these agreements by three different audit firms conducting audits during that time.
  - c. City staff was first informed that the auditor had a concern on March 28th, after both the Finance and Budget Committee had recommended acceptance and City Council had accepted the 2017 audit.

The City's financial statements have been amended to include the long-term arrangement with PCDC for reimbursement of debt service on certain debt issuances. As outlined in the new Note 15 included on page 66 of the amended Comprehensive Annual Financial Report (CAFR) and attached separately to this agenda item, a prior period adjusting entry is included in the statements that increase the City's overall net position (equity) by \$11 million. Essentially, the City's long term revenue that would be received from PCDC for their debt payments has been increased. The attached file, Amended CAFR Pages, highlights the changes made to the CAFR since March 27, 2018. The original page is shown to the left and the amended page is shown to the right.

In a separate letter to the City Council, the Report on Internal Control, the auditor has identified this prior period adjustment to be a material weakness. The City now does have a material finding on the 2017 audit. This is a change from staff understanding, statements made by the audit partner at FAB, and communications to City Council on March 27, 2018. In the attached Report on Internal Control document, both the March 27<sup>th</sup> and final March 30<sup>th</sup> reports are included with changes highlighted.

It is the goal of the Finance staff to present financial reports that are correct and inclusive. The auditor and City staff communicate throughout the entire auditing process to jointly achieve that result. Finance staff is always receptive to any changes in procedure or reporting that improve our document. Our concern for this situation is the timing. During the course of the audit, it is common for staff and the auditor to discuss the merits and necessity for changes in accounting treatment and/or presentation of items within the financial statements. These discussions have always been conducted and resolved well in advance of the presentation of the financial statements. The auditor was well aware of our meeting schedule and should have completed any and all internal reviews prior to meeting with FAB.

The attached resolution has been approved as to form by the City Attorney's Office.

**Prior City Council Action**

On March 27, 2018, the City Council adopted a resolution RES 0503 accepting the fiscal year 2017 audit.

**Fiscal Impact**

There is no fiscal impact as a result of this action.

**Staff Recommendation**

Approve the resolution.

**Drafter**

Lauri Gillam  
Assistant City Manager