



# San Diego County Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

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**AGENDA REPORT**  
Business | Action

August 7, 2023

**TO:** Commissioners

**FROM:** Keene Simonds, Executive Officer  
Erica Sellen, Executive Assistant

**SUBJECT: Outside Audit Report on Fiscal Year 2021-2022**

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## SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will receive an outside audit report on the financial statements issued for 2021-2022. The outside audit has been prepared by O’Conner & Associates (Novato) and concludes all tested transactions were accompanied by sufficient documentation and no material weaknesses were identified. The audited fund balance finished at \$1.505 million and reflects a year end change of (\$0.074 million) or (4.7%) from the prior fiscal year and the result of a budgeted draw-down on reserves to limit new agency contributions. The outside audit and accompanying management letter are being presented to the Commission to formally accept and file as well as to provide direction to staff on related matters going forward.

## BACKGROUND

### Accounting Procedures

San Diego LAFCO’s financial transactions are managed by the Executive Officer and divided between maintaining accounts with the County of San Diego and San Diego County Credit Union. Accounts with the County serve as the primary depository for the fund balance and used for most receivable/payable transactions. LAFCO maintains these accounts through a County issued PeopleSoft license via the Auditor-Controller’s Office. An account with the San

**Administration:**  
Keene Simonds, Executive Officer  
2550 Fifth Avenue, Suite 725  
San Diego, California 92103  
T 619.321.3380  
E [lafco@sdcountry.ca.gov](mailto:lafco@sdcountry.ca.gov)  
[www.sdlafco.org](http://www.sdlafco.org)

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Diego County Credit Union is separately used to cover relatively small and/or time sensitive transactions and provides LAFCO access to its own credit line. Transactions within this account are maintained through QuickBooks. Management of all LAFCO accounts is also aided through a contract with Leaf and Cole LLP (San Diego) to provide monthly bookkeeping and reconciliation services.<sup>1</sup>

## DISCUSSION

This item is for San Diego LAFCO to receive an outside audit prepared by O’Conner & Associates (Novato) on the financial statements prepared by staff for 2021-2022. The report is part of the adopted workplan and accompanied by a management letter addressed to the Commission summarizing O’Conner & Associates’ findings with respect to compliance and internal controls. An outlining of key items drawn from the outside audit follow and further detailed in the management’s discussion and analysis section included in the report.

- LAFCO finished June 30, 2022 with a fund balance of \$1,504,941 and reflects a change over the prior fiscal year of (\$74,145) or (4.7%). This change ties to a budgeted operating shortfall and associated use of reserves to limit agency contributions. (The budgeted draw down on reserves heading into 2021-2022 was \$82,500.) The ending fund balance is entirely unrestricted with \$829,941 unassigned.
- LAFCO’s finished June 30, 2022 with a net position of (\$30,764) and reflects a change over the prior fiscal year of (\$5,489) or (2.2%).
  - LAFCO’s adjusted net position less any accrued pension liabilities totaled \$1,145,378 and reflects a change of (\$1,184,745) or (50.8%). This change is attributed to booking LAFCO’s new 10-year office space lease under GASB 87.
- No adjustments were necessitated during the audit process.
- The management letter makes two related recommendations to the Commission going forward – both involve best practices under GASB 87.
  - The first recommendation is for LAFCO to establish a capitalization policy for right-to-use lease liabilities over \$40,000.
  - The second recommendation is to keep lease terms month to month or as annual leases whenever possible.

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<sup>1</sup> San Diego LAFCO amended its fiscal policies in March 2009 to establish an annual outside audit process. Davis Farr (Irvine) prepared the first outside audit covering 2008-2009 and proceeded to prepare annual audits thereafter through 2017-2018. The Commission transitioned outside auditing services to R.J. Ricciardi (now O’Conner & Associates) beginning with 2018-2019.

## ANALYSIS

The outside audit and accompanying management letter from O’Conner & Associates affirmatively attest San Diego LAFCO’s financial statements accurately reflect the Commission’s financial position as of June 30, 2022. It also attests LAFCO’s accounting practices – including maintaining appropriate documentation and related records – is good, i.e., no material weaknesses and/or omissions were identified. Staff also agrees with the recommendation made to establish a capitalization policy for lease liabilities. Staff will work with our bookkeeper – Leaf and Cole – in assessing the appropriate threshold.

## RECOMMENDATION

It is recommended San Diego LAFCO formally receive and accept the outside audit and associated management letter for 2021-2022 and provide any direction to staff going forward. This recommendation is provided as Alternative One in the proceeding section.

## ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO through a single motion:

Alternative One (recommended):

Receive and accept the audit report and accompanying management letter for 2021-2022 with any related direction going forward.

Alternative Two:

Continue the item to the next regular meeting and provide direction to staff for additional information as needed.

## PROCEDURES

This item has been placed on the agenda for action as part of San Diego LAFCO’s business calendar. The following procedures, accordingly, are recommended.

- 1) Receive verbal report from staff unless waived.
- 2) Commission discussion.
- 3) Consider the staff recommendation.

On behalf of staff,



Keene Simonds  
Executive Officer

Attachments:

- 1) Audit Management Letter
- 2) Outside Audit for 2021-2022

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San Diego Local Agency Formation Commission  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2022

NOTE 12 - CONTINGENCIES

LAFCo may be involved from time to time in various claims and litigation arising in the ordinary course of business. LAFCo management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters should not have a material adverse effect on LAFCo's financial position or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

San Diego Local Agency Formation Commission  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

Required Supplemental Information  
 Budget and Actual  
 General Fund (Unaudited)  
 For the period ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue:				
Apportionment	\$ 1,693,700	\$ 1,693,700	\$ 1,693,700	\$ -
State grants	82,648	82,648	80,372	(2,276)
Proposal fees	150,000	150,000	196,351	46,351
Investment and other income	15,000	15,000	5,087	(9,913)
Total revenue	1,941,348	1,941,348	1,975,510	34,162
Expenditures:				
Salaries and benefits	1,292,364	1,292,364	1,141,035	151,329
Services and supplies	644,947	644,947	1,994,686	(1,349,739)
Capital depreciation	5,000	5,000	-	5,000
Debt service				
Principal	-	-	105,895	(105,895)
Interest	-	-	35,674	(35,674)
Total expenditures and debt service	1,942,311	1,942,311	3,277,290	(1,334,979)
Excess (deficit) of revenue over expenditures	(963)	(963)	(1,301,780)	(1,300,817)
Other financing sources (used):				
Lease liability	-	-	1,227,635	(1,227,635)
Total other financing sources (used)	-	-	1,227,635	(1,227,635)
Net change in fund balance	\$ (963)	\$ (963)	(74,145)	\$ (2,528,452)
Fund balance, beginning of period			1,579,086	
Fund balance, end of period			\$ 1,504,941	

San Diego Local Agency Formation Commission  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2022

NOTE 1 - BUDGETARY REPORTING

San Diego LAFCo adopted an annual budget prepared on the modified accrual basis for the General Fund, which is consistent with generally accepted accounting principles (GAAP). The adopted budget can be amended by the San Diego LAFCo to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require the San Diego LAFCo's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the management to review the budget with the Commission on a quarterly basis and, if necessary, recommend changes.



San Diego Local Agency Formation Commission  
As of June 30, 2022

\*Last 9 Years\*

SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY

Measurement Date	2021	2020	2019	2018	2017	2016	2015	2014	2013
Proportion of the net pension liability	0.047%	0.048%	0.042%	0.032%	0.041%	0.039%	0.036%	0.042%	0.043%
Proportionate share of the net pension liability	\$1,135,902	\$2,305,366	\$1,686,072	\$1,091,200	\$1,501,659	\$1,661,381	\$1,023,368	\$ 893,715	\$1,231,811
Covered - employee payroll	\$ 708,838	\$ 672,154	\$ 615,474	\$ 444,760	\$ 507,984	\$ 462,897	\$ 411,232	\$ 444,346	\$ 446,796
Proportionate share of the net pension liability as a percentage of covered-employee payroll	160%	343%	274%	245%	296%	359%	249%	201%	276%
Plan fiduciary net position as a percentage of the total pension liability	87.15%	72.77%	75.99%	78.9%	76.1%	70.9%	78.3%	81.9%	75.5%

\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

San Diego Local Agency Formation Commission

As of June 30, 2022

\*Last 8 Years\*

SCHEDULE OF CONTRIBUTIONS

<u>Fiscal Year Ending June 30</u>	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 238,521	\$ 293,416	\$ 209,786	\$ 172,020	\$ 166,680	\$ 180,945	\$ 135,423	\$ 142,703
Contributions in relation to the actuarially determined contributions	(238,521)	(293,416)	(209,786)	(172,020)	(166,680)	(180,945)	(135,423)	(142,703)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll during the fiscal year	\$ 708,838	\$ 672,154	\$ 615,474	\$ 444,760	\$ 507,984	\$ 462,897	\$ 411,232	\$ 444,346
Contributions as a percentage of covered-employee payroll	33.65%	43.65%	34.09%	38.68%	32.81%	39.09%	32.93%	32.12%

\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

San Diego Local Agency Formation Commission  
**REQUIRED SUPPLEMENTARY INFORMATION**  
SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY AND RELATED RATIOS

For the year ended June 30, 2022

<b>Measurement Date</b>	2021	2020	2019	2018	2017
Plan's Proportion of the Net OPEB Liability (Asset)	0.053%	0.050%	0.050%	0.037%	0.044%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	\$ 40,240	\$ 50,032	\$ 56,490	\$ 47,526	\$ 63,154
Plan's Covered Payroll	\$ 708,838	\$ 672,154	\$ 615,474	\$ 444,760	\$ 507,984
Plan's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	5.677%	7.444%	9.178%	10.686%	12.432%
Plan's Proportion of the Fiduciary Net Position	31.570%	19.700%	14.730%	10.120%	6.920%
Plan's Proportionate Share of the Fiduciary net Position as a percentage of the Plan's Total OPEB Liability	3.167%	5.076%	14.730%	10.120%	6.920%
Plan's Proportionate Share of Aggregate Employer Contributions	0.053%	0.050%	0.050%	0.037%	0.044%

Notes to Schedule:

The schedules present information to illustrate the changes in San Diego LAFCO's net OPEB liability over a ten year period when the information is available. San Diego LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

San Diego Local Agency Formation Commission  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS - OPEB**

For the year ended June 30, 2022

<u>Measurement Date</u>	2021	2020	2019	2018	2017
Actuarial Determined Contribution	\$ 7,743	\$ 9,946	\$ 10,106	\$ 7,282	\$ 7,256
Contributions in relation to the actuarially determined contribution	(7,743)	(9,946)	(10,106)	(7,282)	(7,256)
	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 708,838	\$ 672,154	\$ 615,474	\$ 444,760	\$ 507,984
Contributions as a percentage of covered payroll	1.09%	1.48%	1.64%	1.64%	1.43%

Notes to Schedule:

The schedules present information to illustrate changes in San Diego LAFCO's contributions over a ten year period when the information is available.

GASB 75 requires this information for plans funding with OPEB trusts to be reported in the employer's Required Supplemental Information for 10 years or as many years as are available upon implementation. The plan was not funded with an OPEB trust prior to June 30, 2018. San Diego LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

**SAN DIEGO LOCAL AGENCY FORMATION  
COMMISSION**

**BOARD OF COMMISSIONERS & MANAGEMENT  
REPORT**

**For the Year Ended  
JUNE 30, 2022**

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Commissioners  
San Diego Local Agency Formation Commission  
San Diego, California

In planning and performing our audit of the basic financial statements of San Diego Local Agency Formation Commission (LAFCo) for the fiscal year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered San Diego Local Agency Formation Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego Local Agency Formation Commission's 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. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist San Diego Local Agency Formation Commission in implementing the recommendations.

This report is intended solely for the information and use of management, the Commissioners, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank San Diego Local Agency Formation Commission's staff for its cooperation during our audit.

  
O'Connor & Company

Novato, California  
July 31, 2023

Commissioners  
San Diego Local Agency Formation Commission  
San Diego, California

We have audited the basic financial statements of the governmental activities and major fund of San Diego Local Agency Formation Commission (LAFCo) for the year ended June 30, 2022. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 15, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. 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 may exist and not be detected by us.

As part of our audit, we considered the internal control of LAFCo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LAFCo are described in Note 2 to the financial statements. GASB 87, accounting for lease policies was adopted and applicable during the fiscal year. We noted no transactions entered into by LAFCo during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. 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 those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimate(s) affecting the financial statements were:

- Management's estimate of the Pension Obligation Bonds Payable is based on information provided by the County of San Diego. We evaluated the key factors and assumptions used to develop the Pension Obligation Bonds Payable in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of transactions related to net pension and OPEB liabilities is based on information provided by the County of San Diego based on actuarial reports. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Accrual and disclosure of leases.
- Capital asset lives and depreciation expense.
- Fair value of investments and financial instruments.
- Compensated absences calculations.
- Post-employment benefit and pension plan actuarial computations.



**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements (Audit Adjustments)**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, the 2 adjustments detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated July 31, 2023.

**Management 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 application of an accounting principle to LAFCo's financial statements or a determination of the type of auditor's 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 the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

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

**Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis, Schedule of the Plan's Proportionate Share of the Net Pension Liability, Schedule of Plan Contributions, Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, and Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and the Board of Commissioners of San Diego Local Agency Formation Commission and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

San Diego Local Agency Formation Commission  
BOARD OF COMMISSIONERS & MANAGEMENT REPORT  
For the Year Ended June 30, 2022

**Current Year Observations**

1) Written Lease Policy Based on GASB 87 Guidance

Observation:

During the course of our audit, we noted that San Diego Local Agency Formation Commission does not have a formal policy for accounting for leases based on GASB 87 guidance. This policy would document LAFCo's internal controls and processes in determining whether GASB 87 guidance applies to potential lease arrangements and capitalization thresholds. This policy would also outline the procedures for estimating and recording lease and right to use asset entries.

Recommendation:

We recommend San Diego Local Agency Formation Commission consider formalizing a capitalization policy for lease liabilities and the right to use assets over \$40,000. We also recommend keeping lease terms month to month or as annual leases whenever possible.

**Prior Year Observations**

Nothing came to our attention.