



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

COUNCIL CHAMBERS - 100 CIVIC CENTER DRIVE, NEWPORT BEACH
FEBRUARY 26, 2015, 6:00 P.M.

FINANCE COMMITTEE MEMBERS:

Keith Curry, Chair / Council Member
Diane Dixon, Mayor Pro Tem
Tony Petros, Council Member
Bill McCullough, Committee Member
Larry Tucker, Committee Member
John Warner, Committee Member
Jack Wu, Committee Member

STAFF MEMBERS:

Dave Kiff, City Manager
Dan Matusiewicz, Finance Director / Treasurer
Steve Montano, Deputy Director, Finance
Marlene Burns, Administrative Specialist to the Finance Director

I. CALL MEETING TO ORDER

II. ROLL CALL

III. PUBLIC COMMENTS

Public comments are invited on agenda and non-agenda items generally considered to be within the subject matter jurisdiction of the Finance Committee. Speakers must limit comments to three (3) minutes. Before speaking, we invite, but do not require, you to state your name for the record. The Finance Committee has the discretion to extend or shorten the speakers' time limit on agenda or non-agenda items, provided the time limit adjustment is applied equally to all speakers. As a courtesy, please turn cell phones off or set them in the silent mode.

IV. APPROVAL OF MINUTES

Summary:

Approval of the November 17, 2014, Finance Committee Minutes.

Recommended Action:

Receive and file.

V. CURRENT BUSINESS

A. FISCAL YEAR 2013-14 AUDIT RESULTS

Summary:

In connection with the City's financial statement audit and the Single Audit for federally assisted grant programs, the auditors have certain obligations to communicate the audit results with both City Council and management.

Recommended Action:

Receive and file.

This Finance Committee is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee's agenda be posted at least seventy-two (72) hours in advance of each regular meeting and that the public be allowed to comment on agenda items before the Finance Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Finance Committee may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible at (949) 644-3005 or cityclerk@newportbeachca.gov.

B. ERP UPDATE

Summary:

ERP (Enterprise Resource Planning) software is a business management software system that integrates all of the City's core functional requirements for financials, human capital management, citizen services, and revenues. The ERP implementation is scheduled to take between 25 and 30 months and will consist of five major phases. The City is currently in Phase 1 (Financials) and began the implementation of Phase 2 (HR/Payroll) in January 2015. The software provider of the City's ERP is Tyler Technologies Inc. and this project is titled "eSAIL," short for ERP System Administration and Implementation Lineup.

Recommended Action:

Receive and file.

C. FINANCE COMMITTEE 2015 WORK PLAN

Summary:

Staff will present and seek approval of the tentative Finance Committee agenda topics scheduled for the year. The work plan represents the planned topics of discussion; however, is subject to change based on the availability of information and the need to schedule other topics as they arise.

Recommended Action:

Receive and file.

VI. ADJOURNMENT

MEETING DATE: 2/26/2015

To: FINANCE COMMITTEE

FROM: Jim Mosher
NAME (PLEASE PRINT)

2210 Private Rd NB 92660
ADDRESS (OPTIONAL)

SUBJECT: AGENDA ITEM No. III, A, B, C

I expect to address the Council on the subject agenda item.

Please have the Council minutes reflect my name as written above.

Providing your address is optional. If provided, it will NOT be printed in the official minutes, however it may be used by staff to contact you if follow-up is required.

NOTE: COMPLETION OF THIS SIGN-IN CARD IS NOT A PREREQUISITE TO ADDRESS THE COUNCIL. THE INFORMATION IS PROVIDED TO ASSIST WITH THE PREPARATION OF THE MINUTES.

**CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
NOVEMBER 17, 2014 MEETING MINUTES**

1) CALL MEETING TO ORDER

The meeting was called to order at 3:03 p.m. in the Newport Coast Conference Room, Bay 2E, 100 Civic Center Drive, Newport Beach, California 92660.

2) ROLL CALL

Present: Council Member Mike Henn (Chair), Council Member Keith Curry (arrived at 3:16 p.m.) and Council Member Tony Petros

Staff present: City Manager, Dave Kiff; Deputy City Manager/Human Resources Director, Terri Cassidy (arrived at 3:38 p.m.); Finance Director, Dan Matusiewicz; Deputy Finance Director, Steve Montano; Budget Manager, Susan Giangrande; Assistant City Engineer, Mike Sinacori; Sr. Budget Analyst, Shannon Espinoza; Public Works Deputy Director, Mike Vukojevic; Fire Captain, Mike Mullen; Revenue Manager, Evelyn Tseng; Accounting Manager, Rukshana Virany; Acting Municipal Operations Department Co-Director, George Murdoch; Public Works Director, Dave Webb; and Administrative Specialist to the Finance Director, Marlene Burns

Members of the public: Jim Mosher, Carl Cassidy, and Council Member-Elect Scott Peotter

Outside entities: Sima Mostafaei from HF&H Consultants, LLC and Megan Nicolai from Orange County Register

3) PUBLIC COMMENTS

Jim Mosher thanked the Committee for recognizing the importance of public comment and commented on the Finance Committee's work plan. He noted that a quarterly report has not been issued for a while and suggested preparing a template and inserting updated numbers so that reports can be issued on a more-timely basis. Additionally, he commented on a secondary review of the City's discretionary reserve policy and noted it is not on today's agenda.

Chair Henn reported that there is a full agenda and that the committee and staff had to choose what items to include and not include on this agenda.

Finance Director Dan Matusiewicz provided a status update of the Quarter Business Report and noting that staff has looked at an alternative form of delivery and determined to report on items as they come up instead of waiting until the end of a quarter.

4) APPROVAL OF MINUTES

Approval of the July 21, 2014, Finance Committee meeting minutes.

Chair Henn noted that he did not attend the Finance Committee meeting of July 21, 2014, and would abstain from the approval of the minutes.

Chair Henn opened public comments.

Jim Mosher made suggestions for corrections to the minutes.

Chair Henn closed public comments.

Council Member Petros moved, and Council Member Curry seconded the approval of the July 21, 2014, Finance Committee meeting minutes. The Committee voted 2 ayes and 1 abstention (Chair Henn) to approve the minutes, as corrected by Mr. Jim Mosher.

5) **CURRENT BUSINESS**

- A. Wastewater Rate Study Results: The Municipal Operations Department retained the consulting services of HF&H to prepare a wastewater and recycled water rate study. The purpose of this presentation is to review the results of the wastewater rate portion of the study and propose the adoption of an appropriate wastewater rate.

Acting Municipal Operations Department Co-Director Murdoch presented information regarding the make-up of the waste water enterprise fund and the items paid for by the fee. He provided details of the rates charged and noted that the proposed rate structure would eliminate surcharges and per-dwelling unit charges and would use only the fixed-meter charge and a commodity rate. He addressed current charges, effects on residents, balancing the budget, and meeting the City's reserve policy to fund Capital projects. He referenced the updated Wastewater Master Plan and further addressed actions needed to meet the City's reserve policy and fund Capital projects and operations.

Council Member Petros commented on the City's reserve policy and what it is intended to do. He added that the intent of the reserve is to provide funds to offset cost increases that are projected to be short-lived therefore, partially eliminating the volatility of partial rate adjustments. It is not intended to offset long-term pricing structure changes.

Chair Henn reported that the current rate structure does not allow for ongoing funding of Capital Improvement Projects in accordance with the Master Plan. He added that there is a need to increase rates in order to provide for the ongoing needs in CIPs. He continued noting that next year, rates will need to be increased in order to back fill the reserves to the policy level. Reserves are intended to cushion rate impacts from sudden, unplanned events.

In response to Council Member Petros, Acting Municipal Operations Department Co-Director Murdoch reported that if the Sewer Master Plan is redone, there would need to be a change in the rate structure. He added that staff continuously reviews the Master Plan and that projects are prioritized according to need.

Chair Henn noted that other than minor adjustments, there has not been a Master Plan study since 2009. He added that the Master Plan was not executed to the level that was planned.

Chair Henn referenced Proposition 218 and added that charges in the enterprise fund must be directly related to costs incurred.

Acting Municipal Operations Department Co-Director Murdoch addressed actions necessary in order to adjust rates under Proposition 218.

City Manager Kiff commented on a subsidy of multi-family commercial that single-families are paying for and requested clarification of the matter.

Discussion followed regarding justified and unjustified charges.

Sima Mostafaei, HF&H, explained that all the costs have been identified as a fixed cost and that they need to be covered in order to maintain the system. Commodity charges would be the variable costs and would increase or decrease based on the flow. She added that the surcharges would be considered more of a fixed cost as the size of the meter could be aligned with the type of customer. She explained the process and calculation used for developing the rate structure.

Chair Henn stressed that the approach for developing commercial rates is analogous to the approach used for potable water.

Sima Mostafaei, HF&H, added that the larger the meters, the larger the cost borne by customers with those meters.

Chair Henn referenced a chart in the staff report noting that it sets forth the actual dollar impacts to customers. He added that it is a very small impact on the City's customer base.

Acting Municipal Operations Department Co-Director Murdoch referenced a comparison of neighboring agencies and noted a difference in service in that the City maintains its own sewer lines. He addressed actions taken by the City resulting in not having to raise the rates over the last nine years and next steps.

Chair Henn indicated this is an action item which would be to make a recommendation for the full Council.

Chair Henn opened public comments.

Jim Mosher reported that waste water from his home is handled by the Costa Mesa Sanitary District which participated in a rate study and Proposition 218 hearings. He stated that people were not as concerned about rate increases as they were with whether they were getting an equitable distribution of costs among single- and multi-family residences and commercial users.

Chair Henn closed public comments.

Acting Municipal Operations Department Co-Director Murdoch added that staff typically looks at the water meter and not the sewer connection size. He addressed options for adjusting rate structures. He noted that he feels comfortable with the proposed structure.

In response to Chair Henn's question regarding practices of other jurisdictions, Ms. Mostafaei reported that the proposed schedule is in accordance with standard practices and addressed challenges in determining indoor and outdoor uses as residential customers do not have separate meters for irrigation.

Council Member Petros moved, and Chair Henn seconded to move this item forward to Council for their consideration as proposed and discussed above. The Committee voted all ayes.

Council Member Curry noted that when it gets to Council, he reserves the right to look at the status going forward and how schedule changes are justified. He added that in many cases, the size of meters for commercial customers is not clear. He noted the need for transparency.

- B. Preliminary FY 2013-14 Year-End Update: Staff will present preliminary financial results of year ending June 30, 2014.

In response to Chair Henn's question regarding the expected completion date of the FY 2013-2014 Comprehensive Annual Financial Report, Finance Director Dan Matusiewicz reported that the auditors are finishing up their field work this week and the final financial report is expected to be completed in mid-December.

Deputy Finance Director Steve Montano presented details of the staff report addressing reserve and surplus levels.

Deputy Finance Director Montano addressed revenues, a comparative income statement, higher-than-expected revenues, expenditures, net income, and General Fund reserves.

Council Member Curry noted that reserves were spent on other capital projects and stated that an explanation is needed to track that money. He added that it was used for facilities.

Chair Henn added that an increase in the contingency reserve was also approved, the number of reserves was reduced and money was consolidated into the contingency reserve.

City Manager Kiff stated that the point is well-taken that the majority of reserve money went to facilities.

Council Member Petros commented on the amount of money that went into the reserve from developer contributions. In response to his inquiry, Deputy Finance Director Montano reported that most of that money was from the Newport Center project as well as other projects.

Deputy Finance Director Montano addressed the FFP (Facilities Financial Planning) reserves and noted that consistent contributions from the General Fund into the FFP will continue. He addressed future development contributions and presented a summary of all the available and discretionary reserves and all of the resources available to the City across all funds that are not classified as either non-spendable or restricted.

Chair Henn opened public comments.

Jim Mosher commented on available and discretionary reserves, Council commitments, and other City reserves.

Chair Henn closed public comments.

The report was received and filed.

- C. Facilities Financial Planning (FFP): Staff will review the latest draft iteration of the Facilities Financial Planning Tool for Finance Committee review and comment.

Chair Henn reported that the FFP is a financial planning tool, explained its purpose and commented positively on the tool.

Finance Director Matusiewicz provided details of the staff report addressing replacement of facilities on an on-going basis, developer contributions and the affordability of debt service.

Discussion followed regarding development fees affecting the timing of the FFP and ensuring the City is conservative on incoming revenues.

Finance Director Matusiewicz noted this is a living document which is reviewed yearly with the best available information. He added that the intent is to review it prior to the budget season so that informed decisions can be made regarding future programming.

Chair Henn opened public comments.

Council Member-Elect Scott Peotter commented on public benefits fees and in response to his question, Finance Director Matusiewicz reported that the public benefit fee is unrestricted but due to Council policy, 2% of the public benefit fee is set aside for public art.

Jim Mosher suggested the FFP would be an appropriate topic for a study session for Council and the public to understand it.

Council Member Curry noted that it was a subject considered at the Council retreat held in January and that it was presented at a regular study session.

Chair Henn noted that Mr. Mosher's point is germane as it relates to the new Council Members.

Mr. Mosher suggested edits to the document.

Chair Henn closed public comments.

Chair Henn commented on projects that can be executed as cash expenditures and no debt.

- D. CalPERS Pension Plan Update and Analysis of Payment Alternatives: Staff will review the most significant changes since the last actuarial valuation. Staff will also review an analysis of alternative payment options to accelerate the pay-down of the City's unfunded pension liability and request a Finance Committee recommendation to bring forth to City Council.

Finance Director Matusiewicz reported that the City received its most recent CalPERS valuation in October for June 30, 2013, which sets the contribution rates for Fiscal Year 2015-2016.

Council Member Curry noted that the City is dealing with liabilities as they were calculated two years ago because that is how CalPERS does it.

City Manager Kiff reported that the youngest valuation is about fifteen months and the oldest is about two years.

Finance Director Matusiewicz addressed adjustments made by CalPERS, effects on unfunded liabilities and the City's goal to pay off its unfunded liabilities over a fixed period of time.

Finance Director Matusiewicz addressed accelerating payment options from the current option down to a ten, fifteen and twenty year plan. Instead of twenty, he analyzed a nineteen-year option. He addressed the schedules in the staff report using the various assumptions, the CalPERS amortization process, incremental costs and savings of the various options, and cutting payment durations.

Chair Henn suggested showing total savings.

Finance Director Matusiewicz addressed the unfunded liability balance, reductions using the various alternatives, and vulnerability to further changes in actuarial assumptions and market value fluctuations.

Finance Director Matusiewicz recommended the nineteen-year payment alternative noting that it has the most bang for the buck.

Chair Henn agreed with the need to be judicious in how the City selects among the three different alternatives. He noted that the City could do a new "fresh start" every year. He added that the City does not want to be in a position of selecting a mandatory solution that stands a potential for the City to wind up overfunded in its pension plan. He suggested that this needs to be analyzed every year. He noted that the more aggressive the alternative, the less flexibility there is to provide services, programs, capital improvements, and investments in the community going forward.

Council Member Curry added that the entire PERS system is set up for a dollar-cost-averaging approach to funding over time. He agreed with Chair Henn regarding the need to be prudent in picking a payment, over time, that accelerates the payment, captures the present-value benefit, and does so in a way that allows the City to continue providing the same quality level of service that it provides while taking advantage of fluctuations in the market.

Council Member Petros reported that the compelling numbers for him were the costs-to-benefits. He added that he is comfortable with the nineteen-year acceleration.

Chair Henn agreed that the nineteen-year plan is appropriate but noted that it can be adjusted in the future.

Chair Henn opened public comments.

Carl Cassidy opined that a number is missing as it relates to what the City earns by keeping the money. He added that there is a value to leaving the money in the City rather than sending it to Sacramento.

Council Member Curry agreed and added that is why the City must be careful that it is not sending too much money to CalPERS because of the possibility of cutting services.

Finance Director Matusiewicz addressed the current schedule and the proposed alternative.

Discussion followed regarding consideration of the mortality rates.

Chair Henn closed public comments.

Chair Henn addressed actions needed at this time.

City Manager Kiff noted that this will be included in Council's January agenda.

Discussion followed regarding payment options differentiating between the additional discretionary payment (ADP) recommendation and the "fresh start" alternative.

Council Member Curry moved, and Council Member Petros seconded to recommend to the City Council at its next meeting, approval of the nineteen-year, fresh start alternative. The Committee voted all ayes.

Discussion followed regarding the timeline for moving forward on this matter

It was suggested to allow the new Council to consider and act on this matter.

Chair Henn commended staff for their hard work.

- E. Enterprise Resource Planning Software Implementation (ERP) Update: Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.

Deputy Finance Director Montano provided a brief overview of the ERP noting it is the City's new, integrated public finance and Human Resources system. He addressed implementation, noted it is progressing as planned, and reported the "go-live" dates for the different elements.

Chair Henn commented positively on the system.

Finance Director Matusiewicz commended Budget Manager Susan Giangrande for her work on this project.

6) FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

No other items were discussed.

Council Member Curry commended Chair Henn for his contributions to the Finance Committee and the City.

7) ADJOURNMENT

The Finance Committee adjourned at 5:21 p.m.

The agenda for the Regular Meeting was posted on November 14, 2014, at 9:32 a.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Keith Curry, Chair
Finance Committee Chair

Date

DRAFT



**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5A
February 26, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director
(949) 644-3123, DanM@newportbeachca.gov

SUBJECT: Fiscal Year 2013-14 Audit Results

SUMMARY:

In connection with the City's financial statement audit and the Single Audit for federally assisted grant programs, the auditors have certain obligations to communicate the audit results with both City Council and management. The attached letters from the City's auditors, White Nelson Diehl Evans fulfill those obligations for the required communication.

RECOMMENDED ACTION:

Receive and file.

DISCUSSION:

The first audit letter is intended to communicate matters of particular significance that City Council should be aware of including:

- Qualitative Aspects of Accounting Practices
- Difficulties Encountered in Performing the Audit
- Corrected and Uncorrected Adjustments
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Audit Findings or Issues

We are pleased to report that the auditors reported no instances of significant audit findings; difficulties encountered in connection with the performance of the audit;

corrected or uncorrected adjustments; disagreements with management or other audit findings or issues.

The second letter entitled “Independent Auditors’ report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended to communicate deficiencies, significant deficiencies or material weaknesses in internal control and instances of noncompliance or other matters. We are pleased to report that the auditors did not identify any deficiencies in internal control considered to be a material weakness that would result in more than a remote likelihood of a material misstatement of the financial statements or would not otherwise be prevented by the City’s internal controls. They also did not identify any instances of noncompliance or other matters that require specific communication to the governing body as promulgated by Government Auditing Standards.

Items of lesser significance are documented as Management Letter comments. We are pleased to report that there were no management letter comments or instances of non-compliance concerning federal award programs were noted this year.

You will have the opportunity to speak to the auditors, without staff present. You may consider any questions that you might have concerning the 2013-14 Audit. Additionally, as the auditors begin their audit planning efforts for the 2014-15 Audit, you may also wish to convey any areas of particular concern.

Prepared by:

Submitted by:

/s/ Rukshana Virany

/s/ Dan Matusiewicz

Rukshana Virany
Accounting Manager

Dan Matusiewicz
Finance Director

Attachments:

- A. Auditor’s “Audit Committee Letter”
- B. Auditor’s “Report on Internal Control over Financial Reporting and on Compliance & Other Matters”

To the Honorable Mayor and
Members of the City Council
of the City of Newport Beach
Newport Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California (the City), for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our planning communication letter to you dated July 21, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the City 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.

The most sensitive estimates affecting the City's financial statements are as follows:

- a. Management's estimate of the fair market value of investments, which is based on market values provided by outside sources.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Sensitive Estimates (Continued)

- d. The funded status and funding progress of the public defined benefit plans with CalPERS are based on actuarial valuations.
- e. The annual required contribution and actuarial accrued liability for the City's Other Post-Employment Benefit Plan is based on certain actuarial assumptions and methods prepared by an outside consultant.
- f. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims are based on actuarial valuations.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were 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 reported in Note 8 regarding claims payable, Note 10 regarding the CalPERS defined benefit plans, Note 12 regarding the City's Other Post-Employment Benefit Plan, and Note 18 regarding the restatement of net position.

The financial statement disclosures are neutral, consistent, and clear.

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

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. We did not identify any known or likely misstatements that required such communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 December 29, 2014.

Significant Audit Findings (Continued)

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 the City’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 the City’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, which is 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.

We were engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

Restriction on Use

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

White Nelson Dick Evans LLP

Irvine, California

December 29, 2014

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and
Members of City Council
City of Newport Beach
Newport Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2014.

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) to determine the audit procedures that are appropriate in the circumstances 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.

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 City'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
December 29, 2014

Item No. 5A1
Fiscal Year 2013-2014 Audit Results
Presentation
February 26, 2015

City of Newport Beach

Communication with Those Charged with Governance
2014 Audit Results

Nitin P. Patel, CPA
Partner

Outline

- Scope of Services
- Auditors' Opinion and Reports
- Communication with Those Charged with Governance
- New GASB Standards

Scope of Services

- Audit of the annual financial statements for the year ended June 30, 2014 in accordance with Generally Accepted (US) and Governmental Auditing Standards
- Audit of federal grant expenditures under OMB Circular A-133
- Agreed-Upon-Procedures related to the City's calculation of the GANN limit

Auditors' Opinion

- Audit of financial statements for the year ended June 30, 2014
- Management is responsible for preparation and fair presentation of the financial statements
- Auditor's responsibility is to express opinions on the financial statements
- Standards require that audit is planned and performed to obtain reasonable assurance that financial statements are free from material misstatement

Auditors' Opinion

- Audit evidence is sufficient and appropriate to provide a basis of our audit opinions
- Unmodified opinions for June 30, 2014

Auditor's Reports (Single Audit)

- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
 - No significant deficiencies or material weaknesses noted
- Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards
 - No significant deficiencies or material weaknesses noted
 - No compliance findings noted

Communication with Those Charged with Governance

- The planned scope and timing of the June 30, 2014 audit was communicated to the City's Finance Committee in a planning letter dated July 21, 2014
- Management is responsible for the selection and use of appropriate accounting policies, which are described in note 1 to the financial statements.
- No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014
- Management has selected and applied other significant accounting policies appropriately and consistently

Communication with Those Charged with Governance

- Significant estimates reported in the financial statements include the following:
 - Fair market value of investments
 - Value of capital assets (infrastructure assets)
 - Estimated useful lives of capital assets for depreciation purposes
 - Funded status and funding progress of CalPERS defined benefit pension plan
 - Annual required contribution and actuarial accrued liability for the City's OPEB
 - Claims payable liabilities

Communication with Those Charged with Governance

- The most sensitive disclosures affecting the financial statements include the following:
 - Note 8 regarding claims payable
 - Note 10 regarding the CalPERS defined benefit plans
 - Note 12 regarding the City's OPEB
 - Note 18 regarding the restatement of net position
- We encountered no significant difficulties during our audit.

Communication with Those Charged with Governance

- No such disagreements arose during the course of our audit.
- Representations related to audit obtained from management in a letter dated December 29, 2014.
- To our knowledge, the City did not consult with other accountants regarding auditing or accounting matters.

New GASB Standards

- GASB 68
 - Accounting and financial reporting for pensions
- GASB 69
 - Government combinations and disposals of governmental operations
- GASB 71
 - Pension transition for contributions made subsequent to the measurement date



**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5B
February 26, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Steve Montano, Deputy Finance Director
(949) 644-3240 or Smontano@NewportBeachCA.gov

SUBJECT: ERP Update

SUMMARY:

ERP (Enterprise Resource Planning) software is a business management software system that integrates all of the City's core functional requirements for financials, human capital management, citizen services, and revenues. The ERP implementation is scheduled to take between 25 and 30 months and will consist of five major phases. The City is currently in Phase 1 (Financials) and began the implementation of Phase 2 (HR/Payroll) in January 2015. The software provider of the City's ERP is Tyler Technologies Inc. and this project is titled "eSAIL," short for ERP System Administration and Implementation Lineup.

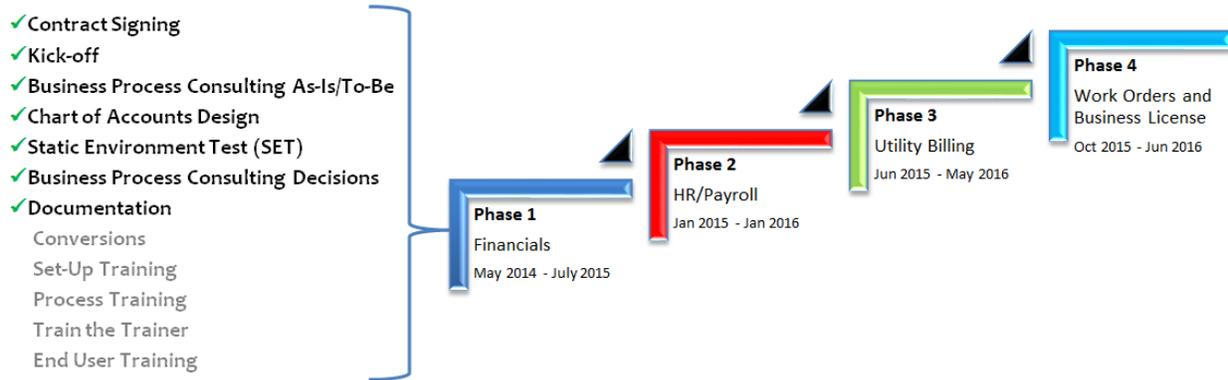
Staff concluded the five-month series of Business Process Consulting (BPC) sessions with Tyler consultants in November. The purpose of the BPC sessions was to develop software configuration specifications according to the City's business needs for the following Phase I module applications:

General Ledger
Purchasing
Inventory

Budget
Accounts Payable
Fixed Assets

Projects and Grants
Contracts Management

The graphic below depicts the various project phases, dates, and current status.



Between January and May of 2015, Finance Department staff will be trained on how to use the system and will prepare for end-user training that is scheduled for June 2015. Finance and Tyler staff will share the responsibility of training nearly all City staff on how to use the new system. Over the past several months the City's IT group participated in all the BPC sessions, completed the ERP system administration setup, were trained on security and workflow, configured E-mail within the new system, and worked with the IT staff within the Police Department to synchronize the two networks. The IT group recently participated in training sessions to set up the new system dashboards that will provide end-users with charts, graphs, and other statistics regarding financial information within their respective areas.

This important project must foster an environment of change in order to allow for the creation of more efficient and effective processes to support the City's mission and goals. With the many changes to the City's business processes that are expected, City staff must be prepared to adapt. To assist in this regard, representatives from Tyler periodically assess through surveys our organization's ability to handle change. The survey results so far indicate that the City has strong leadership and project management skills to support the eSAIL project. Department representatives who make up the Change Management team meet regularly and disseminate eSAIL project information. They also advise project managers where additional training or resources are needed for project success.

The eSAIL Change Management team recently met with 80 mid-level managers throughout the City to provide some information about process changes and new system functionality they can expect when the Financials go live in July 2015.

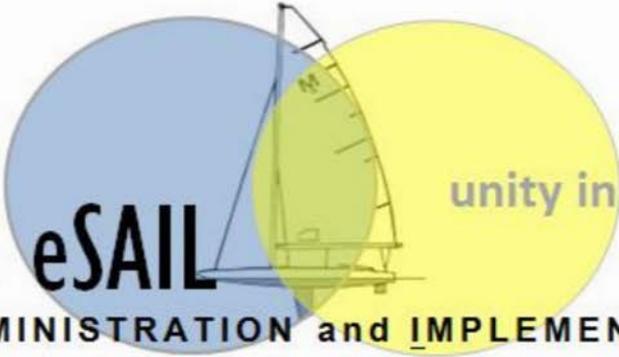
RECOMMENDED ACTION:

Receive and file.

Prepared and Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Director, Finance



Newport Beach eSAIL
unity in purpose

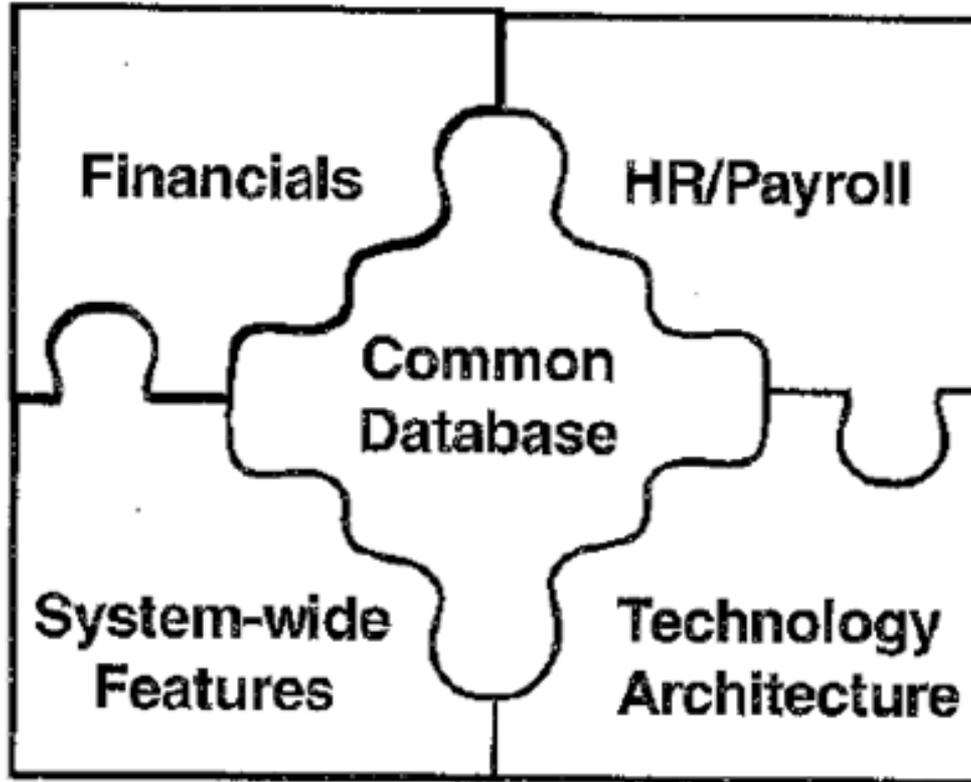
ERP SYSTEM ADMINISTRATION and IMPLEMENTATION LINEUP

ERP Update

February 26, 2015



ERP System – Information is Power



Electronic Work Orders

Electronic Workflow – Requisitions/Purchasing

Electronic Time Card Prep and Approval

Scalable and Dynamic Reporting

Employee Self Service and Professional Development

Fleet and Inventory Management

Electronic Workflow – Budget Changes

Benefits

- Improve operations, with emphasis in budgeting, reporting, and fiscal management
- Increase staff productivity – focus more time on decision support activities as opposed to focusing on transaction processing activities
- Organization-wide software integrates departments and functions into one system
- Citizen Self Service – citizens can pay bills via the internet and file non-emergency requests
- Incident Management – citizens can report pot holes, loss of water, and other activity in their neighborhoods (tied to Work Orders module)

eSAIL Implementation Team

Project and Executive Sponsors

Dave Kiff – Terri Cassidy and Dan Matusiewicz

Project Managers

Sheri Anderson, Steve Montano
and Patty Burkhard (Tyler)

Steering Committee

Steve Montano, Sheri
Anderson, Rob Houston,
Dan Matusiewicz and
Jackie Luengas

Change Mgmt. Team

Jackie Luengas, Laurie
Berger (Tyler), Sheri
Anderson and Steve
Montano

Financials
Project Team

HR Project
Team

IT Project
Team

Financial
Subject Matter
Experts

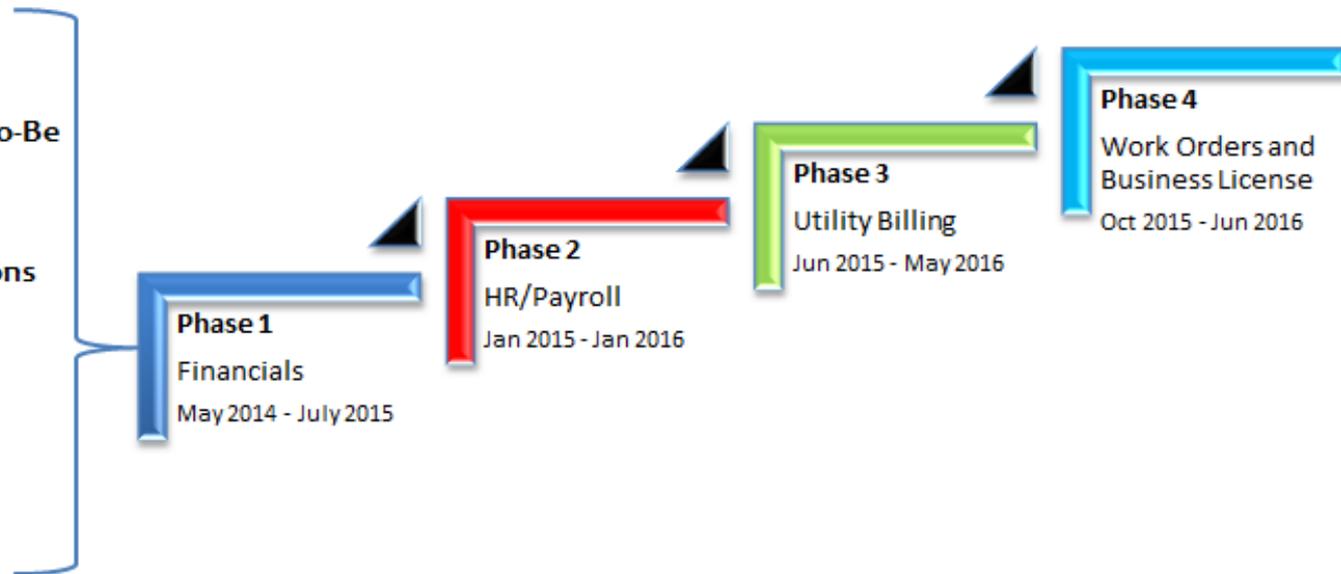
HR Subject
Matter Experts

IT Technical
Team

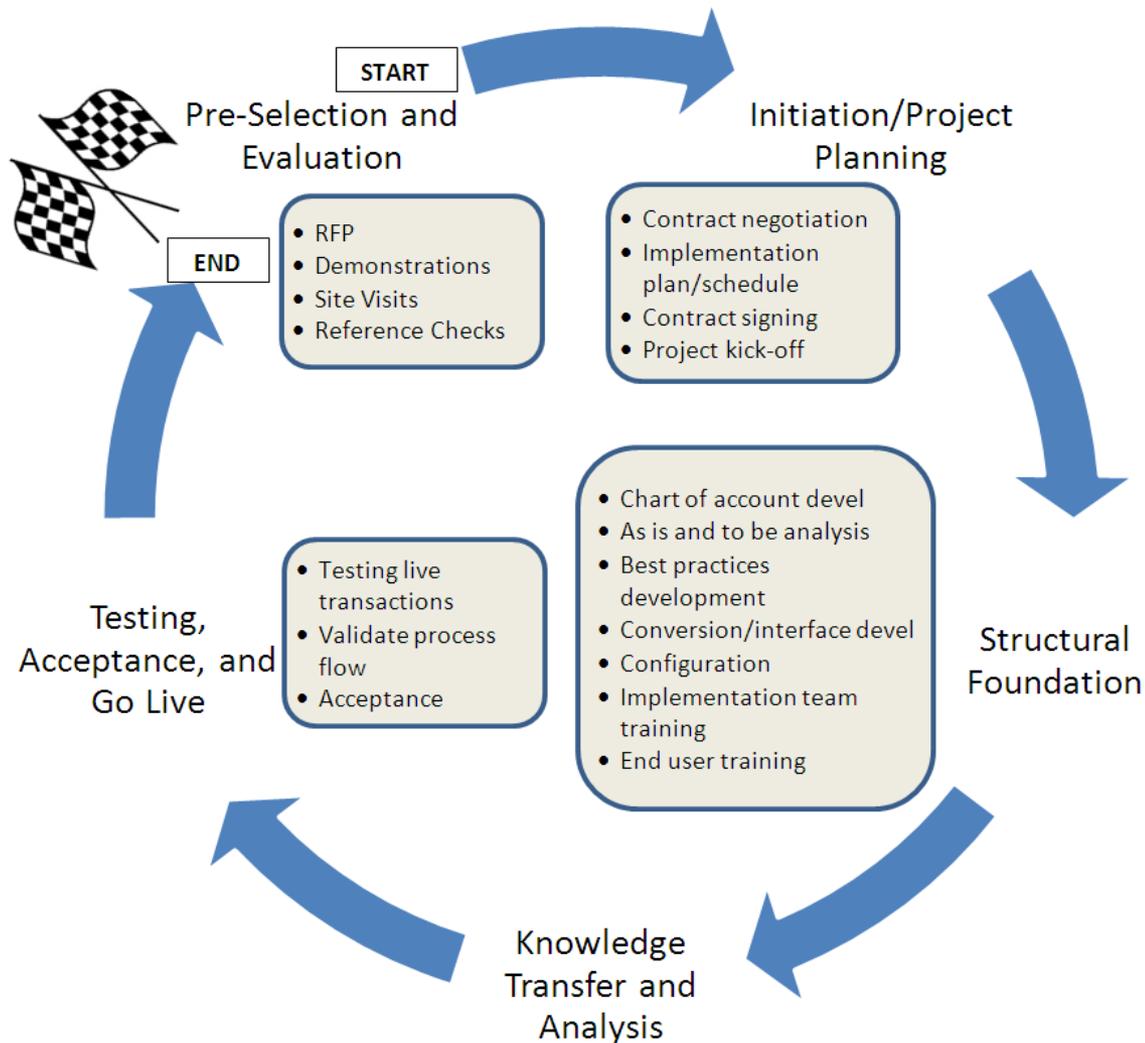
Department
Coordinators

Project Schedule

- ✓ Contract Signing
 - ✓ Kick-off
 - ✓ Business Process Consulting As-Is/To-Be
 - ✓ Chart of Accounts Design
 - ✓ Static Environment Test (SET)
 - ✓ Business Process Consulting Decisions
 - ✓ Documentation
- Conversions
Set-Up Training
Process Training
Train the Trainer
End User Training



ERP Implementation Life Cycle



MUNIS FINANCIALS PHASE I (MAY 2014-JULY 2015)		
	Functional Area	Module
1	System Wide (IT)	<ul style="list-style-type: none"> • Munis Analytics & Reporting • Tyler Content Manager Standard Edition • Tyler Forms Processing • Tyler Secure Signature Key System
2	General Ledger / Chart of Accounts	<ul style="list-style-type: none"> • Accounting General Ledger (Core Financials) • Cash Management
3	Budgeting	<ul style="list-style-type: none"> • Budgeting
4	Purchasing	<ul style="list-style-type: none"> • Purchase Orders • Requisitioning • Contract Management • eProcurement
5	Accounts Payable	<ul style="list-style-type: none"> • Accounts Payable
6	Project / Grant Accounting	<ul style="list-style-type: none"> • Project / Grant Accounting
7	Fixed Assets	<ul style="list-style-type: none"> • Fixed Assets • BMI Asset Track Interface
8	Inventory	<ul style="list-style-type: none"> • Inventory • BMI CollectIT Interface
9	CAFR	<ul style="list-style-type: none"> • CAFR Statement Builder

CORE HUMAN RESOURCES/PAYROLL PHASE II (JANUARY 2015 – JANUARY 2016)

	Functional Area	Module
1	System Wide (IT)	<ul style="list-style-type: none"> • Munis Analytics & Reporting • Tyler Content Manager Standard Edition • Tyler Forms Processing
2	Human Resources	<ul style="list-style-type: none"> • Human Resource Management
3	Payroll	<ul style="list-style-type: none"> • Payroll w/ Employee Self Service
4	Employee Expense	<ul style="list-style-type: none"> • Employee Expense Reimbursement
5	Learning Management	<ul style="list-style-type: none"> • Professional Development

UTILITY BILLING - PHASE III (JUNE 2015 – MAY 2016)		
	Functional Area	Module
	System Wide (IT)	<ul style="list-style-type: none"> • Munis Analytics & Reporting • Tyler Content Manager Standard Edition • Tyler Forms Processing
1	Utility Billing	<ul style="list-style-type: none"> • Utility Billing CIS • UB Interface • Citizen Self Service • Maplink GIS Integration • Central Property File
2	Accounts Receivable/ Billing	<ul style="list-style-type: none"> • Accounts Receivable • General Billing • Tyler Cashiering

WORK ORDERS AND BUSINESS LICENSE – PHASE IV (OCTOBER 2015 – JUNE 2016)

	Functional Area	Module
	System Wide (IT)	<ul style="list-style-type: none"> • Munis Analytics & Reporting • Tyler Content Manager Standard Edition • Tyler Forms Processing
1.a	Work Orders	<ul style="list-style-type: none"> • Work Orders • MapLink GIS Integration • Central Property File • Standard Fuel Interface
1.b	Fleet & Facilities	<ul style="list-style-type: none"> • Fleet & Facilities Management
2	Incidents	<ul style="list-style-type: none"> • Tyler Incident Management
3	Licensing Solutions	<ul style="list-style-type: none"> • Business License
4	Budget	<ul style="list-style-type: none"> • Performance Based Budgeting

Implementation Phases

*** **Red Modules** (New or Automated)

Dashboards finally

The screenshot shows a web browser window displaying the Tyler Dashboard VERIF. The browser address bar shows the URL: <https://dashboardverif.newportbeachca.gov/default.aspx>. The dashboard is titled "Tyler Dashboard VERIF" and includes a search bar and navigation tabs.

Financial Overview

Budget: 17,480,949.40 (0% Spent)

Fund	Spent	Available	% Used
1000 (GENERAL FI)	0.00	2,346,047.41	0.00 %
1100 (MUNICIPAL)	0.00	0.00	0.00 %
2000 (SPECIAL RE)	0.00	15,743,500.00	0.00 %
6000 (CAPITAL PR)	0.00	0.00	0.00 %
9000 (SCHOOL FU)	95.00	13,570.00	0.33 %

Vendor Open Contracts

Vendor #	Name	Type	Contract #	Exp. Date	\$'s Avail.	% Compl.	Change Order
1004	BMI SYSTEMS GROUP	N/A	3140017	N/A	\$873,550.00	3%	No

Open Contracts - \$'s Available

Bar chart showing \$'s Available for Vendor 3140017. The Y-axis ranges from \$0 to \$1,000,000. The bar for Vendor 3140017 reaches approximately \$873,550.

My Workflow

- Notifications: 0 (0 Unread)
- Approvals: 0 (0 Unread)
- Alerts: 0 (0 Unread)

Summary of Project Implementation Method

- * We organized an implementation team
- * Met with all Department Directors and asked for their input
- * “As is” - Analyzed our current business processes
- * Brain stormed the “To be” processes with subject matter experts
- * Applied Best Business to the processes
- * Make sure that the new processes produce improved results, better data, accessible data, less paper, and opportunity to better serve the community



Newport Beach eSAIL
unity in purpose
ERP SYSTEM ADMINISTRATION and IMPLEMENTATION LINEUP

Questions?





**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5C
February 26, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Steve Montano, Deputy Finance Director
(949) 644-3240 or smontano@newportbeachca.gov

SUBJECT: Finance Committee 2015 Work Plan

SUMMARY:

Staff will present and seek approval of the tentative Finance Committee agenda topics scheduled for the year. The work plan represents the planned topics of discussion; however, is subject to change based on the availability of information and the need to schedule other topics as they arise.

RECOMMENDED ACTION:

Receive and file.

Prepared and Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

Attachment: Proposed 2015 Finance Committee Work Plan

City of Newport Beach Finance Committee Work Plan 2015

Scheduled Date	Agenda Title	Agenda Description
February		
Thursday, February 26, 2015	Audit Review (with Auditor)	The City's external audit firm, White Nelson Diehl Evans LLP will meet with the Finance Committee to discuss the audit findings for the fiscal year ending 6/30/2014. The committee will have an opportunity to discuss any potential areas of concern and the auditors can discuss any changes in accounting standards or disclosures that were relevant for the audit year.
	ERP Update	Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.
	Work Plan Overview	Staff will present and seek approval of tentative Finance Committee agenda topics scheduled for the year.
March		
Tuesday, March 10, 2015	Joint Finance Committee and City Council Study Session	Staff will provide a brief financial update and see a first look of the proposed Capital Improvement Projects.
Thursday, March 26, 2015	Review of Facilities Financial Planning Tool (FFPT)	Annual review of the City's FFPT.
	Reserve Policy Review	Review of Reserve Policy F-2
April		
Thursday, April 16, 2015	2015-16 Budget Overview ERP Update	Staff will provide an overview of the proposed operating budget. Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.
May		
Thursday, May 14, 2015	Fee Schedule	The purpose of this meeting is to review staff's recommendation to revise the Master Fee Schedule according to CPI and to review the specific changes recommended for departmental related fees.
Thursday, May 28, 2015	ERP Update	Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.
June - August		
	No Meetings Recommended	ERP - Financial System "Go Live"
September		
Thursday, September 10, 2015	Investment Policy Review	Staff will present its annual review of the City's investment policy and seek approval and guidance from the Finance Committee regarding the scope, objectives, and standards that govern the City's investment portfolio.
	Investment Performance Review	Staff and/or one or more investment advisors will describe the performance of the City's investment portfolio.
	ERP Update	Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.
October		
	No Meeting Recommended	
November		
Thursday, November 12, 2015	Year-End Closing Results Review of Post Employment Retiree Insurance Actuarial Valuation (AKA OPEB) ERP Update	Staff will present the preliminary year-end closing results for FY 14/15. The City's OPEB actuary will review the City's latest OPEB valuation and liability. Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.
December		
Thursday, December 10, 2015	Year-End Closing Results Review of Public Employees Retirement System (PERS) Valuation ERP Update	Staff will present the preliminary year-end closing results for FY 14/15. Staff will present the latest actuarial valuation changes to actuarial assumptions, a review of investment returns, the potential impact of future rates, and the results of employee cost sharing. Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.