CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

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CPCFA Audit Services RFP

CPCFA05-16

Questions from Prospective Proposers

1. Our firm has not met this requirement*, but we can do the work. We have a strong team of professionals and just want to an opportunity with your department. Is there a way around this requirement? (*Firm must have conducted, within the last five years, at least three audits of State governmental agencies.*)

   No. This is required.

2. The RFP states that DVBE participation is mandatory, but it is difficult to find an eligible firm that is willing to participate in a small contract, such as this. Is there any provision for making a reasonable effort to find a DVBE firm, or will proposals automatically be rejected if DVBE participation is not obtained? Can 100% micro-small business participation serve as a substitute? (The other difficulty in finding a DVBE firm is that the audit is performed under Government Auditing Standards, which requires staff performing fieldwork on the audit to obtain 24 hours of government-related courses, and 80 hours of accounting and auditing for those involved in review and reporting.)

   No provisions will be made. Any firm that does not meet minimum DVBE participation percentage (3%) will be rejected.

3. Were there any significant changes to the operations of CPCFA in 2016 or any expected in 2017 that will affect the financial statements?

   No.

4. How many audit adjustments did your prior auditors have?

   Two (2) adjustments were made on the last audit.

5. Are you able to make the year-end accrual adjustments within CALSTARS or are they done as part of the audit process?

   STO Accounting can only post the vacation accrual adjustments on Calstars. The other adjustments are made on the paper financial statements made from Calstars reports. These include the other adjustments needed like GASB 68.

6. How will the State's conversion to FI$CAL affect CPCFA's accounting functions? When will those changes take place?

   CPCFA is currently scheduled to go live in Fi$Cal starting July 2018. The accounting function will be affected by the plan that the State Controller's Office (SCO) will be in Fi$Cal (SCO is scheduled to go live in Fi$Cal on July 2017). Currently, each agency keeps their own book with CALSTARS and SCO has its legacy system, and agencies reconcile their CALSTARS with SCO's. However, SCO and agencies will be in the same system of book of records in Fi$Cal, no longer in separate systems. This may have significant changes of the accounting function, but it is not known exactly how or what at this point.

7. The copy of the prior year audited financial statements included on your website does not include the report on internal control and compliance related to the audit done under Government Auditing Standards. Can you provide a copy of that report?

   Please see attached 2015 Management Representation letter.

8. The scope of work on page 2 of the RFP refers to separate financial statements for each bond program fund. The audited financials on your website show only a single column. Will you require a change from this presentation you have had in the past to a single column presentation to a multi-column presentation? If so, how many bond program funds will need to be presented separately in the financial statements?

   There will be no change as CPCFA only has one bond program.

9. Did your prior auditor issue a management letter? If so, can you provide a copy of the management letter?

   Yes. Please see attached 2015 Management Representation letter.

10. Have there been any changes in personnel that are key to the accounting processes since the last audit?

    No.

11. How many staff does CPCFA have and how many are involved in the accounting function?

    CPCFA has 32 current staff with one vacancy. Five staff are dedicated to the Bond Program, along with a Treasury Program Manager II, a Deputy Executive Director and an Executive Director. CPCFA contracts with the State Treasurer's Office (STO) to provide accounting services.

12. Your scope of work requires an internal control assessment of your bond program. Are all of the individuals involved in the internal controls for the bond program employees within CPCFA? Are they all located in Sacramento?

    Yes and Yes.

13. What did your prior auditor charge for these services?

    The previous contract was for an amount not to exceed $38,350 for two years.

14. Are you required to rotate auditors?

    No.

15. How many days did your prior auditor spend on-site and how many people?

    The previous auditor spent one partial day reviewing files on-site with one staff person.

16. Does the scope of work include preparation of the Special District Financial Transactions Report, or does CPCFA staff prepare that form?

    CPCFA prepares the Special District Financial Transactions Report with assistance from STO accounting.

17. What timeframe do you prefer to have the audit fieldwork take place?

    It is preferred to have all field work take place prior to December 31, 2016.

18. Page 2 of the RFP mentions meeting deadlines. Other than the June 30 of the following year deadline, does CPCFA have other deadlines for certain tasks that are prior to this date?

    Once a contractor has been selected, CPCFA staff, along with STO Accounting staff, will schedule a meeting with the contractor and set a timeline for deliverables. The only hard deadline is June 30 of the following year to deliver the audit to the State Controller's Office.

19. What, if any, are the significant changes in operations from the 14/15 to the 15/16 fiscal year that would affect the financial statements?

    None.

20. Page 10 of 11, #E1 indicates that the DVBE is mandatory; and then #E2 states that the DVBE is optional. We may be mis-understanding this – can this be clarified? Our firm has worked with other state agencies, and some of the agencies have made this "optional" in some RFPs, so I wanted to ensure we understand.

    DVBE *Program requirements* are mandatory for all proposals while DVBE *Incentive program* is optional. All bidders must complete GSPD-05-105 and STD 843, as applicable, and include it with their bids. It is the proposing firm's choice whether or not to submit the DVBE incentive application request with their bid. Bidders' incentive is based on the DVBE participation percentage, the more DBVE participation, higher the incentive.

21. Is the DVBE status required for the entire duration of the contract?

    Yes

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May 27, 2016

James Marta & Company LLP
Certified Public Accountants
701 Howe Avenue, Suite E3
Sacramento, California 95825

Re: 2015 Management Representation Letter

Ladies and Gentlemen:

This representation letter is provided in connection with your audit of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows of the accounts and records of the California Pollution Control Financing Authority Bond Program (the "Program") as of June 30, 2015 and for the fiscal year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Program in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of May 27, 2016:

Financial Statements

- We have fulfilled our responsibilities, as communicated to us in the auditors' Planning Memo, dated August 27, 2015 for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.

- We have reviewed, approved, and taken responsibility for the financial statements and related notes.

- We have a process to track the status of audit findings and recommendations.

- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

- We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements (Attachment C).

- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.

- All funds and activities are properly classified.

- All components of net position are properly classified and, if applicable, approved.

- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available is appropriately disclosed and net position is properly recognized under the policy.

- All revenues within the statement of activities have been properly classified.

- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.

- All interfund and intra-entity transactions and balances have been properly classified and reported.

- Special items and extraordinary items have been properly classified and reported.

- Deposit and investment risks have been properly and fully disclosed.

- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.

- All required supplementary information is measured and presented within the prescribed guidelines.

- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- All transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.

- We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-*

November 30, 1989 FASB and AICPA Pronouncements (FASB Accounting Standards Codification™ (ASC) 450, *Contingencies*), and we have not consulted a lawyer concerning litigation, claims, or assessments.

- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

- The Program has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

- We have disclosed to you all guarantees, whether written or oral, under which the Program is contingently liable.

- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the statement of net position date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

- The Program has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.

- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Supplementary Information in Relation to the Financial Statements as a Whole

With respect to the supplementary information accompanying the financial statements:

- We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.

- We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.

- The methods of measurement or presentation have not changed from those used in the prior period.

- When the supplementary information is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

- We acknowledge our responsibility to include the auditor's report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.

- We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements:

- We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America and GASB-34 and GASB-68.

- We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America and GASB-34 and GASB-68.

- The methods of measurement or presentation have not changed from those used in the prior.

Pension and Postretirement Benefits

- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.

- We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.

Additional Representations

- We have provided to you our views on reported audit findings, conclusions, and recommendations, as well as planned corrective actions.
- The Program has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
- To the best of our knowledge and belief, no events have occurred subsequent to the statement of net position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Reneé Webster-Hawkins, Executive Director, CPCFA

Attachment C – Schedule of Corrected Misstatements
For the June 30, 2015 Audit

The following entry was made to adjust revenue and associated AR balances for fee revenue recognized as of June 30, 2015, but actually earned in fiscal year 2015-16.

Adjusting Journal Entries JE # 1 To decrease revenue and associated AR balances for fee revenue recognized as of 6/30/15 but actually earned in FY 2015-16			
10-980-06	closing fee	317,770.00	
10-980-07	agent for sale fee	16,000.00	
1314	Accounts Rec - Operating Revenue		333,770.00
Total		**333,770.00**	**333,770.00**

The following entry was made to adjust pension liability and related amounts to revised figures per SCO.

Adjusting Journal Entries JE # 2 To adjust pension liability and related amounts to revised figures per SCO. NOTE: Amounts are immaterial to the financials, but auditors and management agreed to book so that we have a good beginning figure moving forward.			
3770	Deferred Inflows	1,375.00	
3900	Net Pension Liability	7,379.00	
3-2012	Staff Benefits		534.00
5540	retained earnings		8,220.00
Total		**8,754.00**	**8,754.00**

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Tax and Consulting

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*

INDEPENDENT AUDITOR'S REPORT

Members of the Board
California Pollution Control Financing Authority
Sacramento, CA

We have audited in accordance with 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 Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows of the California Pollution Control Financing Authority Bond Program as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the California Pollution Control Financing Authority Bond Program's basic financial statements, and have issued our report thereon dated May 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the California Pollution Control Financing Authority Bond Program'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 California Pollution Control Financing Authority Bond Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the California Pollution Control Financing Authority Bond Program's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be a material weakness: 2015-1.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the California Pollution Control Financing Authority Bond Program's financial statements are free of 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 provide an opinion on the effectiveness of the California Pollution Control Financing Authority Bond Program'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 California Pollution Control Financing Authority Bond Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
May 27, 2016

SCHEDULE OF FINDINGS AND RESPONSES

2015-1 Revenue and Accounts Receivable Cutoff

Criteria:
Revenues should be recognized in the period earned.

Condition:
Fees earned in the 2015-16 fiscal year were recognized as revenue and receivable amounts as of June 30, 2015.

Cause:
Adequate cutoff procedures were not in place to ensure revenue was recognized in the correct period.

Context:
Sixteen series of bonds, in various stages of the California Pollution Control Financing Authority Bond Program's process, were evaluated in the course of our audit. Fees related to two series were not recognized in the correct period.

Amount of Questioned Cost:
None.

Effect:
Accounts Receivable, Closing Fee Revenue and Agent Fee Revenue were overstated by $333,770, $317,770 and $16,000, respectively, in the unaudited financial statements.

Recommendation:
Annually, management should review transactions occurring near year end to ensure that all postings are made to the correct period.

Management's Response:
CPCFA had two bond transactions that closed on July 1, 2015. STO Accounting office received the closing fee invoices prior to Fiscal Year (FY) end and still had the books open for FY 2014/2015. The closing fees for these two transactions, which totaled $333,770, were inadvertently included in the 2014/2015 FY when they should have been included in the 2015/2016 FY. The CPCFA Bond Program had a change in management at that time, and checking for this type of occurrence was missed. To avoid this in the future, CPCFA Bond Program staff will ensure that any deals which close at FY end are included in the appropriate FY books. Typically, the closing invoices are sent out two weeks prior to the date that a transaction is scheduled to close. To ensure that the closing fees are included as revenue in the appropriate FY, if a deal closes at or FY end prior to the books being closed, CPCFA staff will ensure that the closing date is typed on the invoice so that STO Accounting can determine which FY that the revenue should go. In addition, the CPCFA Bond Program Manager has been trained on how to evaluate the various accounting reports and is able to determine that the revenue is contained in the proper FY.

Corrective Action Plan:
On an annual basis, the Bond Program Manager will review all transactions to ensure that all revenue postings are made to the correct period.