

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 7

TO: Valley Clean Energy Alliance Board of Directors

FROM: Chad Rinde, Asst. Chief Financial Officer, Yolo County
Mitch Sears, Interim General Manager, VCEA
Shawn Marshall, LEAN Energy US

SUBJECT: Financial Audit – Alternative Audit Schedule

DATE: February 8, 2018

RECOMMENDATIONS:

1. Approve VCEA Treasurer to request alternative audit cycle of a two year audit to the Board of Supervisors for the period of July 1, 2016 to June 30, 2018.

BACKGROUND & DISCUSSION:

The Valley Clean Energy Alliance was formed via a Joint Powers Agency Agreement in December, 2016. The fiscal year of the VCEA was established as July 1 to June 30 of each fiscal year. VCEA is required to contract an auditor to audit the agencies financial statements each fiscal year in accordance with *Generally Accepted Accounting Principles*. This audit is required to be done on an annual basis in accordance with government code section 26909 and the JPA agreement unless authorization has been granted by the County Board of Supervisors for an alternative schedule. Pursuant to the Joint Powers Agreement, this audit should be completed within six months of the end of the fiscal year (December 31, 2017 for the year ended June 30, 2017).

Due to the timing of formation, there was minimal revenue and expenditure activity in the period from December, 2016 through June 30, 2017. This minimal activity excluding the \$1 million in funds loaned during that period from Yolo County and City of Davis was total revenue activity of \$3,373 in interest earnings and expenditures of \$436 excluding member agencies.

Government Code 26909 allows for a special district by unanimous request of the governing board with unanimous approval of the board of supervisors to replace the annual audit with a biennial audit covering a two year period.

During the start-up period of formation, staff time and startup capital is precious to ensure the agency meets the targeted go-live date of providing power sales. Therefore, VCEA staff are requesting the that VCEA Board approve the request to go to the Board of Supervisors of Yolo County to replace the annual audit for the fiscal year ended June 30, 2017 with a biennial audit for the fiscal years ended 2017 and 2018.

VCEA staff are cognizant of the need for financial accountability and believe the relationship with the Yolo County Department of Financial Services provides a mechanism for oversight of VCEA transactions as well as commits to providing financial updates, reports and information as requested to the VCEA board. However, it is prudent to ensure that the benefits of an audit outweigh the costs and due to the minimal activity prior to June 30, 2017, we believe it is prudent to consolidate the audit of that time period into a biennial audit for the period ended June 30, 2018.

Attachments:

- A. Government Code 26909

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 Section operative until Jan. 1, 2027. See, also, § 26909 operative Jan. 1, 2027.>

(a)(1) The county auditor shall either make or contract with a certified public accountant or public accountant to make an annual audit of the accounts and records of every special district within the county for which an audit by a certified public accountant or public accountant is not otherwise provided. In each case, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards.

(2) If an audit of a special district's accounts and records is made by a certified public accountant or public accountant, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards, and a report thereof shall be filed with the Controller and with the county auditor of the county in which the special district is located. The report shall be filed within 12 months of the end of the fiscal year or years under examination.

(3) Any costs incurred by the county auditor, including contracts with, or employment of, certified public accountants or public accountants, in making an audit of every special district pursuant to this section shall be borne by the special district and shall be a charge against any unencumbered funds of the district available for the purpose.

(4) For a special district that is located in two or more counties, this subdivision shall apply to the auditor of the county in which the treasury is located.

(5) The county controller, or ex officio county controller, shall effect this section in those counties having a county controller or ex officio county controller.

(b) A special district may, by unanimous request of the governing board of the special district and with unanimous approval of the board of supervisors, replace the annual audit required by this section with one of the following, performed in accordance with professional standards, as determined by the county auditor:

(1) A biennial audit covering a two-year period.

(2) An audit covering a five-year period if the special district's annual revenues do not exceed an amount specified by the board of supervisors.

(3) An audit conducted at specific intervals, as recommended by the county auditor, that shall be completed at least once every five years.

(c)(1) A special district may, by unanimous request of the governing board of the special district and with unanimous approval of the board of supervisors, replace the annual audit required by this section with a financial review, or an agreed-upon procedures engagement, in accordance with the appropriate professional standards, as determined by the county auditor, if the following conditions are met:

(A) All of the special district's revenues and expenditures are transacted through the county's financial system.

(B) The special district's annual revenues do not exceed one hundred fifty thousand dollars (\$150,000).

(C) The special district shall pay for any costs incurred by the county auditor in performing an agreed-upon procedures engagement. Those costs shall be charged against any unencumbered funds of the district available for that purpose.

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(2) If the board of supervisors is the governing board of the special district, it may, upon unanimous approval, replace the annual audit of the special district required by this section with a financial review, or an agreed-upon procedures engagement, in accordance with the appropriate professional standards, as determined by the county auditor, if the special district satisfies the requirements of subparagraphs (A) and (B) of paragraph (1).

(d)(1) A special district may, by annual unanimous request of the governing board of the special district and with annual unanimous approval of the board of supervisors, replace the annual audit required by this section with an annual financial compilation of the special district to be performed by the county auditor in accordance with professional standards, if all of the following conditions are met:

(A) All of the special district's revenues and expenditures are transacted through the county's financial system.

(B) The special district's annual revenues do not exceed one hundred fifty thousand dollars (\$150,000).

(C) The special district shall pay for any costs incurred by the county auditor in performing a financial compilation. Those costs shall be a charge against any unencumbered funds of the district available for that purpose.

(2) A special district shall not replace an annual audit required by this section with an annual financial compilation of the special district pursuant to paragraph (1) for more than five consecutive years, after which a special district shall comply with subdivision (a).

(e) Notwithstanding this section, a special district shall be exempt from the requirement of an annual audit if the financial statements are audited by the Controller to satisfy federal audit requirements.

(f) Upon receipt of the financial review, agreed-upon procedures engagement, or financial compilation, the county auditor shall have the right to appoint, pursuant to subdivision (a), a certified public accountant or a public accountant to conduct an audit of the special district, with proper notice to the governing board of the special district and board of supervisors.

(g) This section shall remain in effect only until January 1, 2027, and as of that date is repealed.

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