

**CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT
SPECIAL REVENUE FUND**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
of the City of Irvine
Irvine, California

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund of the City of Irvine, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Special Revenue Fund of the City of Irvine, California, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Air Quality Improvement Special Revenue Fund and do not purport to and do not present fairly the financial position of the City of Irvine as of June 30, 2016, or the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2016, on our consideration of the Air Quality Improvement Special Revenue Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

White Nelson Nick Evans LLP

Irvine, California
November 1, 2016

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

BALANCE SHEET

June 30, 2016

ASSETS:	
Cash and investments (Note 2)	\$ 826,059
Interest receivable	1,188
Due from other governments	<u>85,667</u>
TOTAL ASSETS	<u>\$ 912,914</u>
LIABILITIES:	
Accounts payable	\$ 27,447
Accrued payroll	<u>143</u>
TOTAL LIABILITIES	<u>27,590</u>
FUND BALANCE:	
Restricted for air pollution reduction	<u>885,324</u>
TOTAL FUND BALANCE	<u>885,324</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 912,914</u>

See accompanying notes to financial statements.

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

For the year ended June 30, 2016

REVENUES:		
Motor vehicle fees	\$	319,016
Investment income (Note 2)		<u>11,375</u>
TOTAL REVENUES		<u>330,391</u>
EXPENDITURES:		
Direct program		<u>425,131</u>
TOTAL EXPENDITURES		<u>425,131</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES		(94,740)
FUND BALANCE:		
Balance at June 30, 2015		<u>980,064</u>
Balance at June 30, 2016	\$	<u><u>885,324</u></u>

See accompanying notes to financial statements.

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements present only the Air Quality Improvement Special Revenue Fund of the City of Irvine, California (the City), and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

Basis of Accounting

The accompanying financial statements for the Air Quality Improvement Special Revenue Fund of the City of Irvine, California, have been prepared on the modified accrual basis of accounting. Generally, revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Revenues susceptible to accrual include motor vehicle fees and interest earnings on investments received within 60 days of year-end. Expenditures are recognized when the fund liability is incurred, if measurable.

Measurement Focus

The Air Quality Improvement Special Revenue Fund is accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance for the Air Quality Improvement Special Revenue Fund generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Air Quality Improvement Special Revenue Fund

California Assembly Bill 2766 authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution. Under this program, the Department of Motor Vehicles collects the fees and subvenes the amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the South Coast District. Forty cents of every dollar subvented to SCAQMD is proportionately allocated to the cities and counties in the South Coast District based upon population. The amounts attributable to the City of Irvine, California, are maintained in the City's Air Quality Improvement Special Revenue Fund.

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

The Air Quality Improvement Special Revenue Fund cash balance is pooled with various other City of Irvine, California, funds for deposit and investment purposes. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e., credit, interest rate, custodial, etc.), and other disclosures associated with the City's pooled cash and investments is included in the City's basic financial statements, which are available at City Hall.

3. FUND BALANCE:

The entire fund balance of the Air Quality Improvement Special Revenue Fund is classified as restricted fund balance since the external resource provider, SCAQMD, requires that the motor vehicle fees be used only to reduce air pollution.

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*

To the Honorable Mayor and
Members of the City Council
of the City of Irvine
Irvine, 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 *Governmental Auditing Standards*, issued by Comptroller General of the United States, the financial statements of the City of Irvine, California (the City) including the Air Quality Improvement Special Revenue Fund (the AQMD), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 1, 2016.

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) as it relates to the AQMD to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control related to AQMD. Accordingly, we do not express an opinion on the effectiveness of the City's internal control related to AQMD.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Assembly Bill 2766 (AB 2766) Chapter 1705 (Health and Safety Code Sections 44220 through 44247), 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*.

City of Irvine's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 related to AQMD. 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 related to AQMD. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
November 1, 2016

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2016

FINDING 2016-001 – Information Technology Equipment Records

Significant Deficiency

We noted a lack of controls related to the maintenance of capital asset records related to information technology equipment that resulted in the write-off of a significant amount of fully depreciated capital assets by management during the year. It is our understanding that the City of Irvine contracts with a third-party vendor to provide information technology services and has been experiencing difficulties in obtaining proper supporting documentation related to technology equipment replacements and retirements from the former third-party vendor. Inaccurate capital asset records related to technology equipment can result in the misstatement of the machinery and equipment asset classification reported in the financial statements and, potentially, the misappropriation of City of Irvine assets. We recommend that the City of Irvine work with its current third-party vendor to establish procedures and controls to ensure that an inventory of the City of Irvine's technology equipment is maintained and that adequate supporting records of purchases, dispositions, and retirements of technology equipment are received in order to accurately report such equipment for financial reporting purposes.

Management's Response

The City has experienced some turnover in the staff managing the information technology division and its third-party vendor. Over a year ago, the City began the process of requesting proposals from information technology firms to ensure the City had the best-qualified firm assisting the City in its technology requirements.

In August 2016, the City hired a new Manager of Technology and Innovation to oversee the third-party vendor and staff. In September 2016, the City Council approved a new information technology firm as a result of the request for proposal process. The sixty-day transition period between the old and new firm has begun.

The Manager of Technology and Innovation has put into practice the following changes during the first few months of his tenure to strengthen the internal controls over information technology equipment: a physical inventory of the City's technology, including all hardware and software assets; instituted procedures for an annual hardware and software physical inventory; and procurement for technology is now managed by City staff.