



Agenda

City Council Committee of the Whole

Monday, October 14, 2024 at 5:00 PM

City Hall Cowles Council Chambers In-Person & Via Zoom Webinar

Homer City Hall

491 E. Pioneer Avenue
Homer, Alaska 99603
www.cityofhomer-ak.gov

Zoom Webinar ID: 953 097 829 Password: 234969

<https://cityofhomer.zoom.us>
Dial: 346-248-7799 or 669-900-6833;
(Toll Free) 888-788-0099 or 877-853-5247

CALL TO ORDER, 5:00 P.M.

AGENDA APPROVAL (Only those matters on the noticed agenda may be considered, pursuant to City Council's Operating Manual, pg. 6)

WORKSESSION AGENDA

CONSENT AGENDA

REGULAR MEETING AGENDA

DISCUSSION TOPIC(S)

- [a.](#) Financial Statement & Audit for Fiscal Year 2023 – Bikky Shrestha, BDO USA, LLP

COMMENTS OF THE AUDIENCE

ADJOURNMENT

Next Regular Meeting is Monday, October 28, 2024 at 6:00 p.m., Committee of the Whole at 5:00 p.m. A Worksession at 4:00 p.m. All meetings are scheduled to be held in the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.



REPORT TO MAYOR AND CITY COUNCIL

CITY OF HOMER, ALASKA

AUDIT WRAP UP:
YEAR ENDED JUNE 30,
2023

Welcome

September 23, 2024

Honorable Mayor and Members of the City Council

City of Homer, Alaska

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On May 13, 2024 we presented an overview of our plan for the audit of the financial statements of City of Homer, Alaska the City as of and for the year ended June 30, 2023, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA

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FULL REPORT

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Entity, and is not intended and should not be used by anyone other than these specified parties.



Executive Summary

Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2023. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- ▶ We issued an unmodified opinion on the financial statements and released our report.
- ▶ We issued our 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*.
- ▶ We issued an unmodified opinion on the City's Single Audit and State Single Audit, including the Schedule of Expenditures of Federal Awards (SEFA) and Schedule of State Financial Assistance.
- ▶ In planning and performing our audit of the SEFA and SSFA, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with GAS and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Alaska Single Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.



Status of Our Audit, Continued

- ▶ Our responsibility for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the City and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.



Results of the Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES AND SIGNIFICANT UNUSUAL TRANSACTIONS

The following summarizes the more significant required communications related to our audit concerning the City’s accounting practices, policies, estimates and significant unusual transactions:

The City’s significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 18 to the City’s financial statements.
- ▶ There were no changes in significant accounting policies and practices during 2023.

Significant estimates are those that require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The City’s accounting estimates, including a description of management’s processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

The City’s Other Accounting Estimates

Accounts Receivable and Allowances
Discount Rate - Leases
Pension and Other Postemployment Benefits

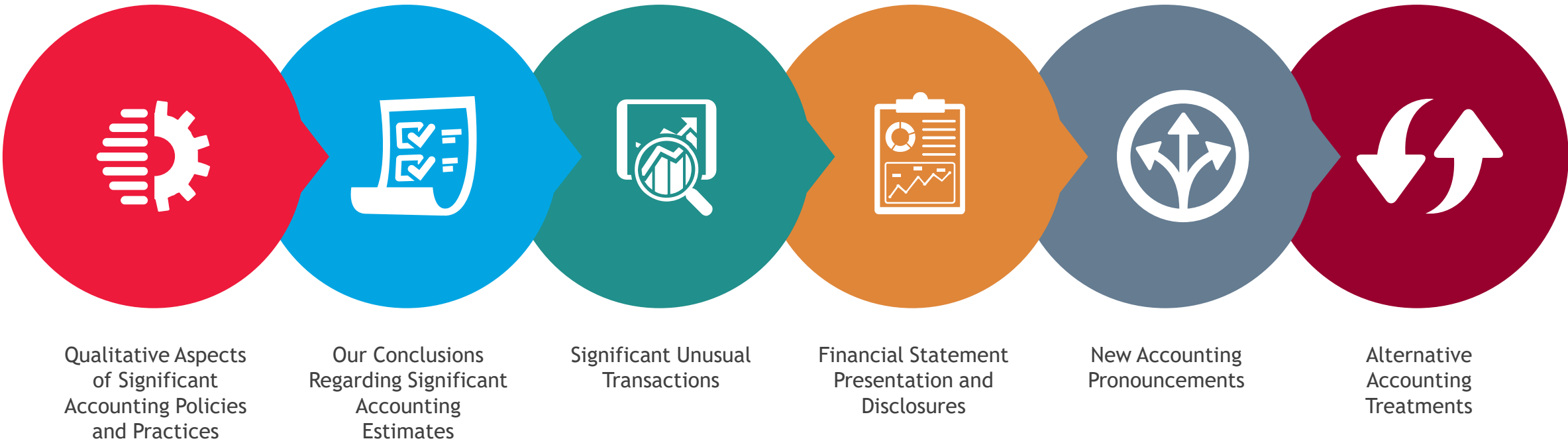
- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2023.

The methods used to account for significant or unusual transactions, and related disclosures, are considered appropriate.

Results of the Audit

QUALITY OF THE City’s FINANCIAL REPORTING

A discussion was held regarding the quality of the City’s financial reporting, which included :



Results of the Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

Please refer to the schedule of corrected misstatements included in the signed representation letter.

Corrected Misstatements

Item #	Account Name and Adjustment Description	Debit	Credit
1)	FY23 Sales Tax Correction		
	Sales Tax	\$220,259	
	Acct Receivable Sales Tax		(\$183,554)
	Sales Tax Receivable		(\$29,364)
	Hart Cap PJTS Sales Tax Rec		(\$7,341)
2)	FY23 Deferred Revenue Correction		
	Deferred Revenue	\$303,706	
	Grant Revenue		(\$303,706)

Results of the Audit

UNCORRECTED MISSTATEMENTS

Please refer to the schedule of uncorrected misstatements to be included in the signed representation letter. We concur with management's assessment that the effects of not recording such adjustments are, both individually and in the aggregate, immaterial to the financial statements taken as a whole, considering both qualitative and quantitative factors. The uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated.

Uncorrected Misstatements

Item #	Account Name and Adjustment Description	Debit	Credit	Impact on Net Position
1)	Natural Gas Assessment Receivable Correction			
	Current Year Assessment Revenue	\$18,358		
	Prior Year Assessment Revenue		(\$18,358)	
2)	Lease Payment Calculation for Wireless applied using the incorrect payment schedule			
	Lease Receivable	\$60,955		
	Deferred Inflow		(\$24,506)	
	Lease Revenue		(\$36,449)	\$36,449
3)	Community Assistance Program Grant Revenue Correction			
	Current Year Grant Revenue	\$98,714		
	Prior Year Grant Revenue		(\$98,714)	
Current year cumulative uncorrected misstatements				\$36,449
Cumulative effect of prior period uncorrected misstatements brought forward from last period				\$0
Cumulative uncorrected misstatements adjusted for prior period impact				\$36,449



Internal Control Over Financial Reporting

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 a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City’s internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or 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.

Internal Control Over Financial Reporting

In conjunction with our audit, we noted the following:

► The following material weaknesses were identified:

Material Weakness	Comments
Deadline for Federal Single Audit - Reporting - Noncompliance and Material Weakness in Internal Control Over Compliance	<p>The City did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended June 30, 2023. As a result, the City is not compliant with 2 CFR 200.512.</p> <p>We recommend the City establish controls to ensure the audit is completed timely and the reporting package is submitted to the FAC within the required timeframe.</p>
Deadline for State Single Audit - Reporting - Noncompliance and Material Weakness in Internal Control Over Compliance	<p>The City did not provide the necessary information to complete the audit related to state programs subject to audit in a timely manner resulting in the audit not being completed by the State deadline. As a result, The City is not in compliance with 2 AAC 45.010 (b)(1).</p> <p>We recommend the City establish controls to ensure the audit is completed timely and the reporting package is submitted to the State within the required timeframe.</p>

Internal Control Over Financial Reporting

In conjunction with our audit, we noted the following:

► The following significant deficiency was identified:

Significant Deficiency	Comments
Significant Deficiency over Controls Pertaining to the Retention of Personal Identifiable Information and Personal Health Information	<p>A portable storage device containing personally protected health information and related personally identifiable information for the affected individuals was removed from a secured location and misplaced. BDO identified the resulting impacts and potential future impacts related to misplaced portable storage devices. BDO determined the impacts to be significant to the entity due to the nature of the data that was misplaced. Future impacts could result in costly remediation by the City to alleviate the burden of identity theft.</p> <p>Management should update policies and procedures pertaining to protected health information, personally identifiable information, secured storage facilities, and portable storage devices.</p>
Grant Revenue Reconciliations - Significant Deficiency in Internal Control Over Financial Reporting	<p>Reconciliations and related details provided on grant revenue contained amounts that were classified as unearned revenue, when the City had already met the criteria to record the amounts as grant revenue. An adjustment of \$303,706 was posted during the audit to record revenue and reduce unearned revenue.</p> <p>Review process should be put in place to ensure revenue is record in the correct period once the criteria for revenue recognition is met</p>



Additional Required Communications

Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risks of material misstatement, including fraud risks; or tips or complaints regarding the City’s financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of an applicable financial reporting framework.
Significant findings and issues arising during the audit in connection with the City’s related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.

Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Point
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the City’s financial statements or to our auditor’s report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.
If applicable, other matters significant to the oversight of the City’s financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the City’s financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Independence

Our engagement letter to you dated May 13, 2024 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.



Audit Firm System of Quality Management

An audit firm’s system of quality control (aka system of quality management) is essential to how the firm conducts audits and is in place to protect investors, shareholders and other users of financial statements.

QUALITY MANAGEMENT STANDARDS

In June 2022, the AICPA Auditing Standards Board (ASB) issued the following interrelated standards on audit quality management (collectively, the QM standards), which are designed to improve a CPA firm’s risk assessment and audit quality. The effective date of the QM standards is December 15, 2025.

Statement on Quality Management Standards (SQMS) No. 1	Statement on Quality Management Standards (SQMS) No. 2	Statement on Auditing Standards (SAS) No. 146
<i>A Firm’s System of Quality Management</i>	<i>Engagement Quality Reviews</i>	<i>Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i>


BDO has assessed the requirements of the QM standards and has analyzed our firm’s current system of quality management to identify changes and improvements necessary for compliance. This includes the identification of quality objectives, quality risks and the assessment of those quality risks, and responses to address those risks. We are further working with BDO Global to appropriately integrate processes deployed at a global level into our firm’s system of quality management.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO’s system of quality control within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).



Appendix



At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

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