

FINANCIAL AND ACCOUNTING PROCEDURES

H. ANNUAL AUDIT

A. Role of the Independent Auditor

It is the policy of SJLAFCO to arrange for an annual audit of its financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by SJLAFCO will be required to communicate directly with the Commission upon the completion of their audit. In addition, members of the Commission may initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor's opinion thereon, will be submitted to the Commission by the independent accounting firm and the financial statements will be presented for consideration by the Commission at a regular meeting.

B. How Often to Review the Selection of the Auditor

In accordance with agency policy and state law, SJLAFCO shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm.
2. When a fresh perspective and new ideas are desired.
3. A change in Auditor every six years should be considered to ensure competitive pricing and a high quality of service.
4. SJLAFCO is restricted from employing a public accounting firm to provide audit services if the lead partner or coordinating audit partner having primary responsibility for the audit, has performed audit services for SJLAFCO for five consecutive fiscal years.

C. Selecting an Auditor

1. The following factors shall be considered by SJLAFCO in selecting an accounting firm:
 - The firm's reputation in the government community.
 - The depth of the firm's understanding of and experience with governmental agencies.
 - The demonstrated ability to provide the services requested in a timely manner.
 - The ability of firm personnel to communicate with Organization personnel in a professional and congenial manner.

If SJLAFCO decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information shall be included:

- Period of services required
- Type of contract to be awarded (fixed fee, cost basis, etc.)
- Complete description of the services requested (audit, management letter, etc.)
- Identification of meetings requiring their attendance, such as staff or Commission meetings
- Organization chart of SJLAFCO
- Chart of account information
- Financial information about the organization
- Copy of prior year reports (financial statements, management letters, etc.)
- Other information considered appropriate
- Description of proposal and format requirements
- Due date of proposals
- Overview of selection process (i.e., whether finalists will be interviewed, when a decision shall be made, etc.)
- Identification of criteria for selection

2. Minimum Proposal Requirements from prospective CPA firms shall be:

- Firm background
- Biographical information (resumes) of key firm member who will serve SJLAFCO
- Client references
- Information about the firm's capabilities
- Firm's approach to performing an audit
- Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
- Other resources available with the firm
- Expected timing and completion of the audit

- Expected delivery of reports
- Cost estimate including estimated number of hours per staff member
- Rate per hour for each auditor
- Other information as appropriate

D. Preparation for the Annual Audit

SJLAFCO shall be actively involved in planning for and assisting with the independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the accounting department shall provide assistance to the independent auditors in the following areas:

1. **Planning** – The Executive Officer is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.

2. **Commission Involvement** – Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit. The Commission's Budget Committee may assist SJLAFCO in fulfilling its audit oversight responsibilities with regard to:

- (a) the integrity of SJLAFCO's financial statements,
- (b) SJLAFCO's compliance with legal and regulatory requirements, and
- (c) the independent auditor's qualifications and independence.

In providing this assistance to the full Commission, the Budget Committee may assume audit responsibilities as provided herein and recommend action on all audit matters to the full Commission.

Audit responsibilities of the Budget Committee may include, but is not limited to, the following:

- Review of the auditor's proposed audit scope and approach.
- Review of annual financial audit reports, schedules, and management letter.
- Any serious difficulties or disputes with management encountered during the audit.
- Matters required to be discussed by Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants or other state or federal agencies.

- Review of the performance of the auditors, including any issues arising during their most recent quality-control or peer review, and their independence as it relates to SJLAFCO.
- Review of the Budget Committee's audit responsibilities annually to reassess their adequacy and recommend any proposed changes.
- Review the Executive Committee's effectiveness in carrying out its responsibilities.
- Other matters deemed appropriate by the SJLAFCO Chair.

3. Interim Procedures – To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to SJLAFCo's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. SJLAFCo staff will assist as much as possible in order to provide requested schedules and documents and to otherwise assist the auditors during any interim audit fieldwork that is performed.

Throughout the audit process, it shall be the policy of SJLAFCO to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

E. Concluding the Audit

Upon receipt of a draft of the audited financial statements of SJLAFCO from its independent auditor, the Executive Officer shall perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors.
2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of SJLAFCO.
3. Review each footnote for accuracy and completeness.
4. Any questions or errors noted as part of this review shall be communicated to the Independent auditor in a timely manner and resolved to the satisfaction of the Executive Officer.
5. It shall also be the responsibility of the Executive Officer to review and respond in writing to all management letter or other internal control and compliance report findings and recommendations made by the independent auditor.