



## Staff Report

**TO:** City Council  
**FROM:** Jeff Mohlenkamp, Finance Director  
Lisa Leach, Senior Accountant  
**DATE** February 2, 2021  
**SUBJECT: FY 2020 Audited Financial Statements and Internal Control Findings**

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### **Background and Analysis:**

On an annual basis the City is required to have an independent review of internal controls and an audit of the financial statements. The audit for FY 2020 is complete and the financial statements along with the auditor opinion are included as Attachment A.

The audit provides for an unmodified (“clean”) opinion, which means that the financial statements present fairly in all material respects, the financial condition of the City. The audit process includes an interim period of review of internal controls and testing of transactions and year end balances. Both processes are completed by the independent auditors.

The review of internal controls and findings regarding prior year deficiencies and deficiencies identified during the current audit are also included as Attachment B. The auditors identified 3 new deficiencies and also identified two prior year deficiencies that require additional action on part of the City. Management’s response is included in this report.

The Annual Financial Report and Independent Auditor’s Report are divided into the following sections:

- **Auditor’s Report on the Financial Statements** – includes their opinion regarding the reliability of the balances and financial activity conducted by the City.
- **Management Discussion and Analysis** – provides management’s discussion of the financial condition of the City and the results of operations for the year ended FY 2020.

- **Financial Statements** – this provides for detailed financial results of both government activities and business type activities along with the change in financial position for the City during the fiscal year July 1, 2019 through June 30, 2020.
- **Notes to the Financial Statements** – this provides additional information regarding a summary of significant accounting policies, including valuation of assets and liabilities.
- **Supplementary Information** – this provides for comparative data with information from prior years.

As highlighted in the management discussion and analysis and detailed in the financial statements, the City’s financial position continues to improve with positive operating results and improvements in the net financial position of the City. The independent audit firm of Rogers, Anderson, Malody and Scott, LLP (RAMS), will provide an overview of the audit process for the City Council and be available to answer questions.

Additional attachments included for review include Attachment C – which provides the appropriations limit and Attachment D – which includes the Auditor representation letter and identifies adjusting entries proposed by the auditor and the management representation letter.

Finance and Audit Committee Review

The Finance and Audit Committee met on January 11 and January 25 to review and discuss these reports. During those meetings, questions were asked regarding the internal control findings and more specifically whether the City is improving over prior years.

The following information was provided in response to those questions and provides information over the past three years that demonstrates improvements made by the City.

Internal Control Findings

	FY 2018	FY 2019	FY 2020
Material Weakness	5	0	0
Significant Deficiency	2	3	5

A deficiency in internal controls exists when the design or operation of control does not allow management or employees to prevent or detect and correct misstatements on a

timely basis. There are two types of deficiencies, a material weakness and a significant deficiency. A material weakness is a deficiency 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 in internal control that is less severe than a material weakness.

During the audit this year, RAMS identified 3 new significant deficiencies, one was related to segregation of duties and the other 2 were related to personnel and payroll processing. There were also 3 carryover deficiencies that addressed one deficiency as being implemented and 2 that had not been implemented since the last audit. In the report provided on January 11, 2021, management has addressed these deficiencies and as of today, new procedures have been implemented to address 3 out of the 5 findings. These findings are detailed in Attachment B.

City staff will be presenting the status of all outstanding internal control findings to the Finance and Audit Committee each month until they are fully implemented.

Audit Timeliness and Completeness of Financial Preparation by the City Finance Team

The City has made progress in both the timeliness of audit completion and the overall completeness of financials for audit review. The following statistics point to some of the progress made by the City:

<b>Fiscal Year</b>	<b>Audit Report Date</b>
FY 2020	January 4, 2021
FY 2019	February 13, 2020
FY 2018	March 26, 2019

<b>Fiscal Year</b>	<b>Number of Auditor Journal Entry Adjustments</b>
FY 2020	5 Journal Entries
FY 2019	13 Journal Entries
FY 2018	18 Journal Entries

Both of the above statistics point to the improved quality and efficiency of the process.

**Fiscal Impact:**

The cost of the audit and staff time associated with preparing the financial statements are included within the budget of the Finance Department. It is estimated that the cost

to prepare this report, including time spent preparing for the Finance and Audit Committee is \$1,500.

**Recommended Action:**

Receive and file the FY 2020 Audited Financial Statements and associated reports.

**Attachments:**

- A. Audited Financial Statements for FY 2019-20
- B. Report on review of Internal Controls for FY 2019-20
- C. Appropriations Limit Report
- D. Auditor representation letter/ Management representation letter