



## Staff Report

**TO:** Finance and Audit Committee Members  
**FROM:** Jeff Mohlenkamp, Finance Director  
Lisa Leach, Senior Accountant  
**DATE** January 25, 2021  
**SUBJECT: Review of Audited Financial Statements for FY 2020 – Second Meeting**

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### Background and Analysis:

On January 11, 2021, City staff presented the following documents to the Finance and Audit Committee:

- Audited Financial Statements for FY 2019-20,
- Report on review of Internal Controls for FY 2019-20,
- Appropriations Limit Report, and
- Auditor representation letter/ Management representation letter.

City staff further provided an overview of these documents and highlighted the internal control findings identified by the auditors. During the meeting, Committee members asked for additional time to review the documents and agreed that all members would submit any questions to the Deputy City Clerk by Monday, January 18. One question was received. That question and the answer are included as Attachment A.

Additionally, there was discussion regarding internal control deficiencies and whether the City has made progress in addressing those issues. Since there are several new members on the Committee, the following information is provided to give some context and demonstrate the improvements made over the past three years:

### 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 since the last audit. In the report, provided on January 11, 2021, you will notice that management has addressed these deficiencies and that as of today, new procedures have been implemented to address 3 out of the 5 findings.

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.

**Recommended Action:**

It is recommended that the Finance and Audit Committee forward the audit reports provided to the Committee on January 11, 2021, to the City Council for consideration.

**Attachments:**

- A. Questions and Answers from the Finance and Audit Committee
- B. Audited Financial Statements for FY 2019-20
- C. Report on review of Internal Controls for FY 2019-20
- D. Appropriations Limit Report
- E. Auditor representation letter/ Management representation letter