

The Honorable Mayor and City Council Members  
**City of Bel Aire, Kansas**

We are pleased to present this report related to our audit of the basic financial statements of the City of Bel Aire, Kansas (the City) as of and for the year ended December 31, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the City Council and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Auditing Standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

This letter includes other comments and suggestions with respect to matters that came to our attention in connection with our audit of the City financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the City's practices and procedures.

### **Our Responsibilities with Regard to the Financial Statement Audit**

Our responsibilities under auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide* have been described to you in our arrangement letter dated January 29, 2024. Our audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated January 29, 2024 regarding the planned scope and timing of our audit and identified significant risks. We made no significant changes to the scope or timing of our procedures.

### **Accounting Policies and Practices**

Preferability of Accounting Policies and Practices - Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant Accounting Policies - We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions - We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the City's December 31, 2023 basic financial statements.

- Land project valuation - Management evaluates the valuation of the land held for sale by comparing current year sales to asking prices and utilizing appraisals in the selling documents. As a basis for our conclusions, we compared asking prices to actual sales.
- Net pension liability - The City followed guidelines in GASB Statement No. 68 for reporting its proportionate share of KPERS' collective net pension liability. This included obtaining KPERS' report on Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer and Nonemployer as of June 30, 2023, which was audited by other auditors. The City compared contributions made by the City to amounts included in this report. As a basis for our conclusions, we reviewed KPERS' report for reasonableness and verified and recalculated the City's information provided in the report.
- Total Other Post-Employment Benefit (OPEB) Liability - The City participates in KPERS' death and disability OPEB plan. The City followed guidelines in GASB statement No. 75 for reporting its share of the KPERS' death and disability OPEB plan. This included obtaining an actuary report as of June 30, 2023 provided by KPERS' on the City's share of this plan liability. As a basis for our conclusion, we reviewed KPERS' report for reasonableness and verified and recalculated the City's information provided in the report.

### **Audit Adjustments and Uncorrected Misstatements**

Audit adjustments proposed by us and recorded by management are summarized below:

- to adjust beginning fund balance in various funds related to prior year audit adjustments
- to record debt activity for amounts paid directly by the trustee
- to adjust accounts payable and other accrued liabilities
- to properly record sales tax, mortgage, property tax, franchise tax, water and sewer and other operating receivables for amounts collected after year-end
- to adjust special assessments receivable
- to properly record the movement of funds to record long term debt activity
- various capital asset adjustments
- to record the net pension liability and total OPEB liability and related deferred inflows and outflows of resources
- to convert fund data for proper inclusion into the government-wide financial statements
- to record purchases and sales during the year of land held for sale
- to record unearned revenue for ARPA grant revenue received in advance of eligibility requirements being met

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

## **Management Representations**

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles and also includes the more significant and specific oral representations made by officers and employees during the course of the audit. The letter is intended to reduce the possibility of misunderstandings between us and the City and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

## **Observations About the Audit Process**

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit year; we encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements; we are not aware of any consultations management had with other accountants about accounting or auditing matters; no significant issues arising from the audit were discussed or the subject of correspondence with management; we did not encounter any difficulties in dealing with management relating to the performance of the audit; and we did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

## **Shared Responsibilities for Independence**

Independence is a **joint responsibility** and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For Allen, Gibbs & Houlik, L.C. (AGH) to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and AGH each play an important role.

## **Our Responsibilities**

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. AGH is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

## **The City's Responsibilities**

- Timely inform AGH, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, officers, or persons in financial reporting and compliance oversight roles.
  - Changes in the reporting entity impacting affiliates such as partnerships, related entities, investments, joint ventures, and component units.
- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the City and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with AGH.

- Not entering into arrangements of nonaudit services resulting in AGH being involved in making management decisions on behalf of the City.
- Not entering into relationships resulting in AGH, AGH covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the City.

### **Internal Control Matters**

In planning and performing our audit of the financial statements of the City as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

*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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses:

Accounting and Financial Reporting: The City's management is responsible for the accuracy, completeness and fairness of the data presented in the basic financial statements, including all disclosures. Management generated budgetary fund-level financial statements and provided supporting information to assist the auditors in compiling components of the footnotes, fund level statements and government-wide financial statements that are in accordance with generally accepted accounting principles. Throughout the course of the audit, the auditors identified several adjusting entries to prepare the fund level statements, government-wide financial statements and complete set of notes to the financial statements. Management does review the adjusting entries and financial statements prepared by the auditors. We recommend the City develop policies and procedures by generally accepted accounting principles and ensure personnel receive ongoing training related to the preparation of the annual financial statements.

- A deficiency exists in controls over procedures used to initiate, authorize, record and process certain journal entries into the general ledger, and record recurring and nonrecurring adjustments to the financial statement including: activity recorded for capital assets (see more

detail below); activity recorded for debt; and adjustments for accounts receivable, accounts payable, and other liabilities. We recommend that the City develop policies and procedures to identify, evaluate and properly record all activity in the general ledger or as top-side report entries, as applicable.

- Certain adjustments to the capital asset records were required as a result of our procedures including: identification of completed construction in process (CIP) projects, and removal of those project; recording of expenses to proper CIP projects; recording CIP in the water and sewer funds; and recording of land project transactions. We recommend that the City develop procedures to capture, track and record all capital asset activity.

The deficiency described above could result in misstatements to the basic financial statements.

A significant deficiency is 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. We consider the following deficiency in the City's internal control to be a significant deficiency:

- Municipal Court receivable/revenue segregation of duties: One employee has the ability to enter traffic violations and violations of City ordinances and has the ability to accept payments as well. Compensating controls include that all cash and checks collected by the court clerk are processed and posted into the system by the Treasurer's Department. We recommend the City evaluate if the system can produce a report that shows changes made to tickets within the system.

The deficiencies below are deficiencies in internal control that have compensating controls put into place by management, to help mitigate, but not eliminate the risk of material misstatement. We consider the following to be classified as internal control deficiencies:

Segregation of duties:

- Payroll - One employee inputs employee master file information (can enter data for new employees and change pay rates), enters pay period information and processes payroll. Compensating controls include: the financial statements are reviewed and compared to budget monthly by department heads and the City Council. A calculation verification report is reviewed by both the payroll clerk and the Director of Finance each payroll cycle. Starting mid-2021, the system allowed for the Director of Finance to limit his access so he no longer can make pay changes. However, he can still grant himself this access and does when needing to fill in for the payroll clerk. We recommended in the 2021 governance letter that the City implement an authorization or approval process for changes made to the payroll system through review of master file change reports. In September 2022, the City Manager, who does not have access to make payroll changes, did begin reviewing payroll change reports quarterly and has continued this review through 2023. We viewed these reports, noting the City Manager's signatures for all quarters of 2023. As of April 2024, the City Manager now reviews these reports every pay period.
- Accounting system - One employee has access to all areas of the accounting software, which provides for the opportunity for management override of controls. Compensating controls include: the financial statements are reviewed and compared to budget monthly by department heads and the City Council. Additionally, all journal entries recorded in the system are reviewed by both the Director of Finance and Treasurer. We recommended in the 2021 governance letter

that someone independent of the accounting process reviews the entered budget and compares to the legal budget. For fiscal year 2023, the City had the City Clerk, who does not have access to the system, review the budget entered into the system for accuracy to approved budget.

- Accounts receivable/revenue - One employee has the ability to enter and adjust approved rates into the utility billing system, to accept payments for utilities, and to prepare and make the bank deposits. Starting mid-2021, access to make changes to utility rates was limited to only the Director of Finance. We recommended in the 2021 governance letter that someone independent of the rate approval process reviews changes to utility rates. For fiscal year 2023, the City implemented an additional control where the City Clerk did review the rate changes made by the Director of Finance for accuracy.

Potential effects of the above noted significant and control deficiencies include recording of fraudulent transactions resulting in potential misappropriation of assets that may not be detected in a timely manner. For the remaining significant deficiency, the City is currently evaluating additional mitigating controls in that area to assist in mitigating risk of misstatement.

### **Other Matters**

Cybersecurity - Effective cybersecurity risk management continues to be more important than ever in today's environment. Those charged with governance and executive management (the governance team) face an enormous challenge: to oversee how the organization manages cybersecurity risk.

An effective cybersecurity risk management program includes assessments of your comprehensive risk, controls and vulnerabilities to provide reasonable, but not absolute, assurance that material breaches are prevented or detected, and mitigated in a timely manner. The combined effects of an organization's dependency on IT, the complexity of IT networks and business applications, extensive reliance on third parties and human nature (i.e., susceptibility to social engineering) are only likely to increase the need for effective cybersecurity risk management programs.

As a best practice, we encourage executive management to be intimately involved with the risk management program and to share the results with the governance team.

Comprehensive Policy and Procedure Review - Given the broad and deep scope of your operations, you should consider completing a comprehensive evaluation of the adequacy and effectiveness of the entity's internal financial policies, processes and procedures, including a comparison to best practices among organizations the same size.

For entities that have experienced budget cuts in the finance area or those that have experienced turnover, a periodic review of controls is imperative. Even if your finance team has been stable over the years, we remind you that even the best design of controls is only as good as the people who carryout and execute such controls.

Financial policies, procedures and processes are a key element of sound fiscal administration. When policies are effective, they can preserve or enhance the fiscal health and wealth of the organization and create efficiencies for staff members.

This comprehensive evaluation could include:

1. Evaluation of existing controls
2. Identification of financial policies that could lead to vulnerability to fraud and/or abuse
3. For those identified weaknesses and risks, recommendations for improvements

AGHUniversity Resources - As part of AGH's ongoing commitment to serve as a trusted advisor, we offer these resources as a key part of the additional value AGH provides beyond the engagement itself:

- AGHUniversity.com - a full schedule of complimentary CPE or current and relevant topics and other updates to clients throughout the year. Free registration and webinars are available for the Company's staff and board members at aghuniversity.com. A sample of recent topics include Lease accounting; Become a destination employer: 5 factors you must get right; 6 steps to improving employee soft skills - Along with productivity and profitability; Measuring what matters in your 401(k) plan for recruitment, retention and reward; Cybersecurity: Protect your organization from cybercriminals; and 10 steps to prepare your business for a sale.
- AGH alerts and newsletters - This includes periodic mailings or emails to alert clients to new accounting standards or regulatory changes.

### **Closing**

We will be pleased to respond to any questions you have about this report or set up an introductory meeting to discuss the other recommendations at no charge. We appreciate the opportunity to continue to be of service to the City of Bel Aire, Kansas.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

Wichita, KS  
June 27, 2024