*City of Bel Aire, Kansas*

# STAFF REPORT

DATE: 8/6/2024
TO: Ted Henry, City Manager
FROM: Barry Smith, Director of Finance
RE: Report on Implementation of Auditor's Recommendations from 2023 Governance Letter

Auditors from Allen, Gibbs & Houlik L.C. (AGH) have completed the audit of the City's 2023 financial statements. Accompanying the audit was a Governing Body Communication letter dated June 27, 2024 that identifies areas of needed improvement in the City's internal control processes.

This memo highlights those deficiencies, and the corrective actions staff has already taken or will be taking in the future to address the concerns. AGH auditors have assured staff that the identified areas are due to the City's small staff size which is common among cities of the second class. These are the same weaknesses identified in the past audit years.

Below, we provide an overview of the actions taken in response to each recommendation.

Accounting and Financial Reporting:
   Financial Statement Preparation: City staff members do not currently possess the level of training required to prepare the annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP).  Although the American Society of CPA's indicates that financial statements and note disclosures should be prepared "in-house" by a staff accountant, this requirement is not very realistic for most small municipalities, and many have this issue identified during their audit. The Finance department will begin working with our auditor on selecting training to begin completing these tasks for our next audit period.
   Journal Entry/ Capital Asset: This deficiency is related to capital asset recording. Prior to the audit, capital projects funded with temporary notes were not considered to be assets until the permanent financing (GO bond) was issued. Auditors will continue to work with staff to ensure that going forward, capital projects will be moved from the "Construction In Progress" report to the schedule of assets when they are placed in service, not when they are bonded, however this improvement was not enough to fully remove this deficiency for 2023.

Municipal Court receivable/revenue
   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.

Payroll System Authorization and Approval Process:
   The auditors in the 2021 Governance Letter (published in July of 2022) recommended the establishment of an authorization or approval process for changes made to the payroll system through the review of master file change reports. Currently, the City Manager reviews all pay increases and approves with his signature. Following the July 2022 recommendation, we developed a process where the City Manager quarterly reviews payroll change reports from the accounting system. This new process simply confirms the pay amount is correctly entered into our accounting system. As stated in the governance letter, in April of 2024 the quarterly reviews of payroll change reports were changed to every pay period. Also,

the Finance Director reviews each payroll upon it being entered into our software and after the bank file has been created to ensure no changes were made between approval steps.

In summary, we have made progress as a staff over the past several years. One of our biggest headaches is the inability of our current software to address some of these concerns. As we move forward with our software implementation with Tyler Technologies, it has allowed us to begin reviewing every single operational process throughout our organization. Reviewing these processes has been beneficial to all of us as we implement our new software in a way to mitigate, if not remove, most of the items of concern from our auditor. We look forward to reducing this list as we continue our new software implementation.