

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 (City) as of and for the year ended December 31, 2021. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Organization'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.

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's 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.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

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 4, 2022. Our audit of the 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 4, 2022, regarding the planned scope and timing of our audit and have discussed with you our identification of 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 or Unusual Transactions - We did not identify any significant or 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 describes the significant accounting estimates reflected in the City's 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, 2021, 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, 2021 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

Audit adjustments proposed by us and recorded by the City are as follows:

- 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

Uncorrected Misstatements

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.

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, 2021, 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 opinions 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 significant deficiencies or material weaknesses. 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 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 deficiency in the City's internal control to be a material weakness:

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 to improve the financial reporting process by identifying adjustments and disclosures required 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 projects; 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 deficiencies in the City's internal control to be significant 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 each payroll cycle that is reviewed by both the payroll clerk and the Director of Finance. 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 recommend that the City implement an authorization or approval process for changes made to the payroll system through review of master file change reports. We discussed and looked at system reports at the end of the fiscal year 2021 audit with the Director of Finance and found a payroll change report can be run that shows all changes made for that period, the time stamp of the change and the user that made the change. The City will work on implementing a review of this payroll change report by the City Manager who does not have access to make payroll changes during fiscal year 2022.

- 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 recommend that someone independent of the account process reviews the entered budget and compares to the legal budget. Starting for fiscal year 2023, the City will have 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 recommend that someone independent of the rate approval process reviews changes to utility rates. The City is implementing an additional control starting with the January 1, 2023 rate changes where the City Clerk will review the rate changes made by the Director of Finance or accuracy.
- 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.
- Check writing - For fiscal year 2021, there was no dual verification for the approval of ACH and wire payment. In addition, the Treasurer has access to master vendor files, the ability to write checks, and has access to the Finance Director's signature stamp. Starting in fiscal year 2022, the City does now require dual authorization for ACH and wire payments.

Potential effects of the above noted significant deficiencies include recording of fraudulent transactions resulting in potential misappropriation of assets that may not be detected in a timely manner. The City is currently evaluating or, as noted above, implemented additional mitigating controls during the year in these areas to assist in mitigating these risks.

Other Matters

Cybersecurity Risk

An effective cybersecurity risk management program provides 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. Elements of an effective cyber risk management program should include:

- A comprehensive and documented risk assessment. Such assessment should not fall solely on the IT team. It is a governance and management challenge that should involve executive management and others charged with governance.
- Control assessments should include, at a minimum, an information technology systems general controls review, social engineering testing and, potentially, internal and/or external penetration testing. A vulnerability assessment will identify potential network vulnerabilities that can leave a company open to significant risk. Using automated scanners, this will help the organization identify and resolve vulnerabilities before they are exploited by cybercriminals.

Both control assessments and vulnerability assessments should be completed on a periodic basis which is dependent on the annual risk assessment. At a minimum, we strongly believe these assessments should be done on an annual basis, IF NOT MORE OFTEN. Executive managers should be involved with the review and summary reports should also be shared 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 carry out 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 County's staff and board members at aghuniversity.com. A sample of recent topics include Management and Key Position Succession Planning; Destroying the Myths about Employee Engagement; Preventing Fraud in Small and Medium Sized Organizations; Measuring What Matters in Your 401(k) Plan to Recruitment, Retention and Reward; Planning The Transition: Taking Your Company To Market; and The How and Why of Business Valuations.
- AGH alerts and newsletters - this includes periodic mailings or emails to alert clients to new accounting standards or regulatory changes.
- Also available from the home page of www.aghlc.com are COVID-19 resources for employers and taxpayers. You can access tax and HR-related alerts, webinars and other third-party resources to help you navigate through the COVID-19 pandemic.

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
July 29, 2022