

STAFF REPORT



DATE: 9/14/2022

TO: Ty Lasher, City Manager

FROM: Ted Henry, Assistant City Manager/ Director of Finance

RE: 2021 Audited Financial Statements

Auditors from Allen, Gibbs & Houlik L.C. (AGH) have completed the audit of the City's 2021 financial statements. Accompanying the audit was a Governing Body Communication letter dated July 29, 2022 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 weakness identified in the past seven audit years. In past few years, I have worked with our software provider and auditors in efforts to remove some of these weaknesses. You will note these changes throughout the letter starting on page 4 and 5. (highlighted below) These changes represent progress, and the work will continue.

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.** (report not available with our current software provider)

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. (bank upgraded online approval system) **Starting in fiscal year 2022, the City does now require dual authorization for ACH and wire payments.**

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.

Journal Entry/ Capital Asset: This deficiency is related to the material weakness regarding 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 2021.