



## STAFF REPORT

DATE: 9/5/2023

TO: Ty Lasher, City Manager

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

RE: Report on Implementation of Auditor's Recommendations from 2022 Governance Letter

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Auditors from Allen, Gibbs & Houlik L.C. (AGH) have completed the audit of the City's 2022 financial statements. Accompanying the audit was a Governing Body Communication letter dated July 18, 2023 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.

### 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. The auditors 2022 Governance Letter confirms this change was made.

### Accounting System and Controls:

Similar to payroll, the auditors recommended a secondary checkoff when inputting the annual budget and any changes to our utility rates. With a small staff, I have access to all areas of our accounting system. Following the July 2022 recommendation, we developed a process where the City Clerk confirms the annual budget and any utility rate changes are correctly entered into the system. The auditors 2022 Governance Letter confirms this change was made.

### 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)

### 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 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 2022.

In summary, I am pleased with the strides we have made. Despite our staffing constraints, we have used cross-departmental cooperation to establish enhanced internal controls. I am committed to sustaining this momentum and driving further progress on this issue. If you find yourself in need of additional information or if any aspect requires further clarification, please feel free to reach out to me without any hesitation.