



GRAND RAPIDS PUBLIC UTILITIES COMMISSION MEMO

AGENDA DATE: May 17, 2023

AGENDA ITEM: Consider a motion to approve the 2022 audited financial statements.

PREPARED BY: Jean Lane, Business Services Manager

BACKGROUND:

Baker Tilly US, LLP will present in their reporting and insights from the 2022 audit an assessment of risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the GRPUC's internal control over financial reporting.

Baker Tilly US, LLP in their reporting will note a deficiency and a material weakness in internal control for 2022.

A deficiency "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." (American Institute of Certified Public Accountants, Professional Standards, U.S. Auditing Standards (2021), "Communicating Internal Control Related Matters Identified in an Audit," paragraph 265.07).

A material weakness is defined as "a deficiency (or combination of deficiencies) in internal control, such that there is reasonable possibility that a material misstatement of an entity's financial statements could occur that would not be prevented, or detected and corrected on a timely basis."

GFOA has a Best Practices "Internal Control Deficiencies in Audits" which states Governments should craft an effective strategy for minimizing any potential negative effect resulting from the communications of internal control related matters identified in an audit.

Each GRPU accounting/finance team member has specific roles and responsibilities within the Business Services Department. My role is to review the team members work for accuracy and if an error is found (1) understand why the error occurred; (2) verify the error is corrected, and

(3) determine if any process improvements need to be implemented. At times the GRPU accounting/finance team members can review Business Services Manager accounting work, yet there are times when they do not have background to review and errors are found by the GRPUC external audit firm.

I incorrectly recorded in December 2022, upon receiving the award letter, a \$412,718 grant from MN Homeland Security Department for a generator at the combined services center. This bookkeeping entry was an increase in receivables and increase electric department revenue of \$412,718. This entry overstated the GRPUC receivables and revenues in 2022. This type of accounting transaction for GRPU is currently considered unusual and infrequent.

The Baker Tilly audit team reviewed the entry which should not have been recorded in 2022. The correction is to reverse the bookkeeping entry in December 2022 and record the bookkeeping entry to match when the expense occurs (when GRPUC receives and pays for the generator, maybe in 2024) as the money has not yet been received nor the expenses incurred in 2022.

The process improvement that will be implemented to “catch” a possible error with unusual and infrequent transaction recording is the following: (1) Business Services Manager has a review with the City Finance Director on any unusual and infrequent general journal entries and document the review, or if City Finance Director is unable/unavailable then (2) Business Services Manager has a review with a peer Finance position with a comparable public utility and document the review.

The Business Services Manager has reviewed the material weakness with the General Manager. The General Manager has discussed the material weakness with the GRPUC President.