

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 The City's internal controls over financial reporting are inadequate to ensure the financial statements are accurate.

Background

City management and the public rely on the information included in the financial statements and reports to make decisions. City management is responsible for designing and following internal controls to ensure that the City's financial statements, notes, and required schedules are prepared and presented fairly and provide reasonable assurance regarding the reliability of these statements.

Our audit identified internal control deficiencies that hinder the City's ability to produce accurate financial statements. Government auditing standards requires auditors to communicate significant weaknesses in internal controls as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over accounting and financial reporting, that, when taken together, represent a significant weakness:

- The City did not perform an independent review of the financial statements by someone who is knowledgeable about City activity and applicable reporting requirements.
- The City did not perform an adequate evaluation of fund balance to ensure amounts provided through restricted and committed resources were properly reported as reserved and that the remaining funds were reported as unreserved.
- The City did not review changes to Budget Accounting and Reporting System (BARS) Manual accounts to ensure proper account coding.
- The City did not adequately ensure transfers between funds were reported properly.

Cause of Condition

The City has not devoted sufficient time and resources to ensure financial statements accurately reflect the BARS Manual reporting requirements.

Effect of Condition

As a result of the internal control deficiencies, we identified the following errors:

- We estimate likely classifications errors between reserved and unreserved fund balance of about \$91,923 in 2016, \$139,546 in 2017, and \$154,065 in 2018.
- The City classified license and permit revenue totaling \$52,310, \$6,678, and \$135,466 as custodial activities in 2016, 2017 and 2018, respectively.
- The City classified natural and economic environment expenditures of \$52,332, \$30,319, and \$113,730 as custodial activities in 2016, 2017, and 2018, respectively.
- The City Council approved a \$250,000 transfer from the general fund to street fund in December 2018. The City incorrectly reduced the general fund's 2018 beginning balance by \$250,000 and increased the 2018 street fund's 2018 beginning balance by \$250,000. This also resulted in an understatement of \$250,000 for general fund transfers out and street fund transfers in.

Recommendation

We recommend the City:

- Establish a detailed review of the financial statements by an independent person who is knowledgeable about reporting requirements for cash-basis entities to ensure accurate preparation of the City's financial statements.
- Evaluate the fund balance to properly classify reserved and unreserved balances.
- Review changes to BARS manual accounts to properly classify accounts.
- Report transfers between funds correctly.

City's Response

Thank you for identifying these issues. The city will work to correct these issues.

Auditor's Remarks

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.