Memo to: Independence City Council

Date: May 14, 2020

From: Audit and Finance Committee (DeLuccie, Perkins, Roberson)

Re: Audit and Finance Meeting of 5-1-20 and resumed 5-6-20 to review 2018-2019 CAFR

The Audit and Finance subcommittee met on Friday, May 1, 2020 and reconvened on May 6, 2020 in order to finish the agenda items. Both meetings were held via remote access due to the Covid-19 virus. A number of different topics in addition to the 2018-2019 CAFR (Comprehensive Annual Financial Report) were discussed so other members of the city council may wish to review the meeting recordings.

An important agenda item reviewed by the committee was the 2018-2019 CAFR created by the City Finance Department which was supported by the "Uniform Guidance Single Audit Report" from the independent audit firm of Rubin Brown LLP (copy attached) and the independent auditor's communication/considerations resulting from the audit in a document entitled "View Points".

Four items of concern are noted:

a. 2019-001 MATERIAL WEAKNESS IDENTIFIED

NON-RECONCILED ACCOUNTS: Timely reconciliation of the cash and investments between the financial institutions and the amounts reported in the city's general ledger. The bank statements reflected balances that exceeded the general ledger. Customer deposits were not entered in the general ledger but only in the utility billing system. A corrective entry of $1.82 million dollars had to be made in October 2019 in order to accurately reconcile the general ledger and the bank accounts.

CORRECTIVE ACTION: City staff is performing monthly reconciliation of all city bank accounts. The Audit and Finance Committee will be holding monthly meetings with the Finance Department in order to review monthly financial statements and the status of MUNIS implementation.

b. 2019-002 SIGNIFICANT DEFICIENCY IDENTIFIED

PROCUREMENT POLICY IS DEFICIENT: The city's procurement policy leaves the city susceptible to criticism because documentation that recites the technical evaluation of bidders and the rationale for making awards is not required to be retained in all procurement files. The Auditor reviewed the Missouri City contract and could find no justification reflected in the file to justify the city's not choosing the lower bid in the project. The city uses its own procurement standards rather than the standards mandated by the Federal Government when using federal funds. In this instance, the city council did not award the bid based on the city staff recommendation so there was no documentation reflecting the basis for awarding the contract to the alternate vendor.

CORRECTIVE ACTION: Staff will create a procurement policy that contains guidelines contained in the Code of Federal Regulations (CFR200.318 through 200.326) by June 30, 2020.

A second suggestion by the Audit and Finance Committee is to have the decision maker (staff and city council members) of the procurement decision affirmed in writing that there is no conflict of interest in the specific purchase.

c. 2019-003 SIGNIFICANT DEFICIENCY IDENTIFIED

MUNIS NOT FULLY IMPLEMENTED: In July 2018 when the city implemented MUNIS, the system was not set up to be used to prepare financial statements directly from the general ledger. Instead, the financial statements are prepared using information contained in MUNIS plus information completed manually on spreadsheets by city staff.

CORRECTIVE ACTION: MUNIS will be fully implemented as soon as possible. The anticipated completion date by city staff is June 30, 2021. This date is not acceptable. The Committee will meet with the Finance Department monthly to monitor progress of full implementation of the MUNIS system.

d. 2019-004 SIGNIFICANT DEFICIENCY IDENTIFIED

LATE FILING OF MANDATORY FEDERAL REPORTS: The city failed to file mandatory reports with HUD regarding the use of federal dollars (CDBG funds/Entitlement Grants). One report was 366 days late and a second was 93 days later.

CORRECTIVE ACTION: Establish reminders in the city calendar system within the Finance Department to submit the required reports (SF425) on time. The Committee will obtain the mandatory dates when the reports are due and monitor the progress of timely filing at the monthly meeting with the Finance Department.

CONCLUSION

The Audit and Finance Committee will meet monthly with the finance department for the foreseeable future to review the items referenced herein as well as other items that may arise. The first such meeting is June 12, 2020, with anticipated monthly meetings held thereafter on the third Friday of each month. Also, to be presented at the June 12, 2020 meeting will be the audit of IPL conducted by the City Management Analyst Mark Thoma-Perry.

CITY OF INDEPENDENCE, MISSOURI

UNIFORM GUIDANCE

SINGLE AUDIT REPORT

JUNE 30, 2019

For Discussion Purposes Only

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For Discussion Purposes Only

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

The Honorable Mayor and Members
of the City Council
City of Independence, Missouri

For Discussion Purposes Only

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Independence, Missouri (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated _____*. Our report includes a reference to other auditors who have audited the financial statements of Silverstein Eye Centers Arena included in the Events Center major enterprise fund, as described in our report on the City's financial statements. The financial statements of the Silverstein Eye Centers Arena were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 *material weakness* is a deficiency, or a 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the City in our auditor communications dated _____*.

The City's Responses To Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

For Discussion Purposes Only

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

_____*

For Discussion Purposes Only

Independent Auditors' Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; And Report On Schedule Of Expenditures Of Federal Awards Required By The Uniform Guidance

The Honorable Mayor and Members
of the City Council
City of Independence, Missouri

For Discussion Purposes Only

Report On Compliance For Each Major Federal Program

We have audited the City of Independence, Missouri's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion On Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-004. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report On Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

For Discussion Purposes Only

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-004 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plans. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

For Discussion Purposes Only

Report On Schedule Of Expenditures Of Federal Awards Required By The Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated _____*, which contained unmodified opinions on those financial statements. Our audit report included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

_____*

For Discussion Purposes Only

CITY OF INDEPENDENCE, MISSOURI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Or Cluster Title	Federal CFDA Number	Pass-Through Identifying/Grant Number	Federal Expenditures	Passed Through To Subrecipients
U.S. Department Of Housing And Urban Development				
CDBG - Entitelment Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-29-0002	$ 98,767	$ 19,478
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-29-0002	123,491	—
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-29-0002	203,533	42,989
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-29-0002	161,827	27,842
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-29-0002	325,057	105,302
			912,675	195,611
Passed Through the Missouri Department of Economic Development				
Neighborhood Stabilization Program	14.228	2008-DN-07	305	—
HOME Investment Partnerships Program	14.239	M12-MC-29-0207	19,886	—
HOME Investment Partnerships Program	14.239	M14-MC-29-0207	64,428	—
HOME Investment Partnerships Program	14.239	M15-MC-29-0207	23,790	—
HOME Investment Partnerships Program	14.239	M16-MC-29-0207	9,963	—
HOME Investment Partnerships Program	14.239	M17-MC-29-0207	76,009	—
			194,076	—
Total U.S. Department Of Housing And Urban Development			1,107,056	195,611
U.S. Department Of Interior				
National Park Service				
Passed Through the Missouri Department of Natural Resources				
Historic Preservation Grant Fund	15.904	29-17-151350-015	10,440	—
Historic Preservation Grant Fund	15.904	29-18-161413-006	20,000	
Total U.S. Department Of Interior			30,440	—
U.S. Department Of Justice				
2016 Improving Criminal Justice Response	16.590	2016-WE-AX-0036	132,855	28,936
Passed Through Jackson County				
Edward Byrne Memorial Justice Assistance Grant 17	16.738	2017-H3171-MO-DJ	44,563	—
Equitable Sharing Program	16.922	N/A	109,717	—
Total U.S. Department Of Justice			287,135	28,936
U.S. Department Of Transportation				
Federal Highway Administration				
Highway Planning and Construction Cluster				
Passed Through the Missouri Department of Transportation,				
Highway Planning and Construction				
78 Highway and Truman Road	20.205	STP 3330 (421)	9,747	—
Crysler Complete Streets	20.205	STP 3379 (431)	47,569	—
39th Street and Noland Road	20.205	STP 3372 (403)	548,223	—
Noland and Fair	20.205	CMAQ-3379 (432)	103,235	—
Passed Through the Missouri Department of Transportation,				
Highway Safety Division				
Work Zone Enforcement Program	20.205	CWZEG03Z	4,895	—
			713,669	—
Federal Transit Cluster				
Passed Through Kansas City Area Transportation Authority				
Urbanized Area Formula Transit (49 USC 5307)	20.507	MO-2017-018-01	584,910	—

For Discussion Purposes Only

CITY OF INDEPENDENCE, MISSOURI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (*Continued*)
For The Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Or Cluster Title	Federal CFDA Number	Pass-Through Identifying/Grant Number	Federal Expenditures	Passed Through To Subrecipients
U.S. Department Of Transportation *(Continued)*				
National Highway Transportation Safety Administration				
Highway Safety Cluster				
Passed Through the Missouri Department of Transportation,				
Highway Safety Division				
Hazardous Moving Violations Program	20.600	18-PT-02-086	$ 35,424	$ —
Hazardous Moving Violations Program	20.600	19-PT-02-013	89,161	—
Red Light Running and Aggressive Driving Enforcement	20.600	18-PT-02-086	5,105	—
Red Light Running and Aggressive Driving Enforcement	20.600	19-PT-02-013	18,189	—
I-70 Aggressive Driving Enforcement Project	20.600	18-PT-02-086	17,546	—
I-70 Aggressive Driving Enforcement Project	20.600	19-PT-02-013	38,434	—
Passed Through the University of Central Missouri				
Statewide Traffic Enforcement Program - Click It or Ticket	20.600	19-PT-02-067	2,209	—
Statewide Traffic Enforcement Program - Youth Seat Belt Enforcement	20.600	19-PT-02-067	392	—
Passed Through the University of Central Missouri				
Statewide Traffic Enforcement Program - July 4th DWI Enforcement	20.616	18-154-AL-154	623	—
Statewide Traffic Enforcement Program - Holiday DWI Enforcement	20.616	19-154-AL-019	1,260	—
Passed Through the Missouri Department of Transportation,				
Highway Safety Division				
DWI Enforcement	20.616	18-M5HVE-03-044	116,598	—
Youth Alcohol Enforcement	20.616	18-M5HVE-03-044	27,630	—
Drug Recognition Expert Training	20.616	19-M5HVE-03-001	1,033	—
Occupant Protection Program	20.616	18-M2HVE-05-026	4,724	—
Occupant Protection Program	20.616	19-M2HVE-05-003	27,613	—
Passed Through the University of Central Missouri				
Statewide Traffic Enforcement Program - Child Passenger Safety	20.616	18-M2OP-05-020	702	—
			386,643	—
Passed Through the University of Central Missouri				
Statewide Traffic Enforcement Program - Drive Sober or Get Pulled Over	20.607	18-154-AL-154	1,305	—
Passed Through the Missouri Department of Transportation,				
Highway Safety Division				
DWI Enforcement	20.607	19-154-AL-013	261,345	—
Youth Alcohol Enforcement	20.607	19-154-AL-013	26,231	—
			288,881	—
Total U.S. Department Of Transportation			1,974,103	—
U.S. Department Of Health And Human Services				
Food and Drug Administration				
Passed Through the Association of Food and Drug Officials				
Retail Program Standards Program	93.103	G-T-1709-05583	576	—
Public Health Investigator Training	93.103	G-T-1810-06461	1,925	—
			2,501	—
Administration on Aging				
Aging Cluster				
Passed Through Mid-America Regional Council				
Senior Transportation Services	93.044	19-2961014-CI	16,105	—
Senior Nutrition Site	93.045	19-2961014-CI	30,000	—
			46,105	—

For Discussion Purposes Only

CITY OF INDEPENDENCE, MISSOURI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (*Continued*)
For The Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Or Cluster Title	Federal CFDA Number	Pass-Through Identifying/Grant Number	Federal Expenditures	Passed Through To Subrecipients
U.S. Department Of Health And Human Services *(continued)*				
Administration on Aging				
Medicaid Cluster				
Passed Through Mid-America Regional Council				
Senior Medicaid Assessments	93.778	19-2961014-CI	$ 2,380	$ —
Administration for Children and Families				
CCDF Cluster				
Passed Through the Missouri Department of Health and Senior Services				
Child Care Sanitation Program Inspections	93.575	ERS220-17045	1,700	—
Child Care Sanitation Program Inspections	93.575	ERS220-17118	3,760	—
			5,460	—
Health Resources and Services Administration				
Passed Through the Missouri Department of Health and Senior Services				
Maternal & Child Health Services - School Wellness Program	93.994	N/A	3,000	—
Total U.S. Department Of Health And Human Services			59,446	—
Executive Office Of The President				
Office of National Drug Control, High Intensity				
Passed Through the Kansas Bureau of Investigation				
Midwest High Intensity Drug Trafficking Area Task Force	95.001	G17MW0003A	6,067	—
Midwest High Intensity Drug Trafficking Area Task Force	95.001	G18MW0003A	91,932	—
Midwest High Intensity Drug Trafficking Area Task Force	95.001	G19MW0003A	83,516	—
Midwest High Intensity Drug Trafficking Area, Investigative Support Center Initiative	95.001	G18MW0003A	77,344	—
Midwest High Intensity Drug Trafficking Area, Investigative Support Center Initiative	95.001	G19MW0003A	15,928	—
Total Executive Office Of The President			274,787	—
U.S. Department Of Homeland Security				
Passed Through the State Emergency Management Agency				
2019 Storm & Flooding Disaster Declaration	97.036	FEMA-4451-DR	91,101	—
Emergency Management Assistance	97.042	EMK-2018-EP-00003-048	98,500	—
Total U.S. Department Of Homeland Security			189,601	—
Total Expenditures Of Federal Awards			$ 3,922,568	$ 224,547

For Discussion Purposes Only

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Independence, Missouri (the City) for the year ended June 30, 2019. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the schedule of expenditures of federal awards. The information presented in this schedule is in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

2. Significant Accounting Policies

Expenditures of federal awards are recognized under the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business.

For Discussion Purposes Only

3. Indirect Cost Rate

The City has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

CITY OF INDEPENDENCE, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019

Section I - Summary Of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	x	yes	___	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	x	yes	___	none reported
Noncompliance material to financial statements noted?	___	yes	x	no

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	___	yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	x	yes	___	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	x	yes	___	no

Identification of major programs:

Name Of Federal Program Or Cluster	CFDA Number
U.S. Department Of Housing And Urban Development	
Community Development Block Grants/Entitlement Grants	14.218
U.S. Department Of Transportation	
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between type A and type B programs:	$750,000			
Auditee qualified as low-risk auditee?	___	yes	x	no

For Discussion Purposes Only

Section II - Financial Statement Findings

2019-001
Material Weakness

Criteria: Effective cash management and reporting includes a timely reconciliations of cash and investments between the amounts reported by the banks and custodians and the amounts reported as held by the City in the general ledger.

Condition: Cash related to utility deposits had not been effectively reconciled between the bank statement and the general ledger during the 2019 fiscal year. During the fiscal year, the monthly bank statements presented balances that exceeded the general ledger balances, and the difference between the bank and the general ledger increased each month relative to the prior month. Customer deposits were being accounted for only in the utility billing system and not in the general ledger. Staff communicated to us they were aware of the variance. In October of 2019, the City posted $1.82 million of correcting entries that were identified by the City in order to complete the reconciliation.

Cause: During the implementation of the utility billing system, cash received related to utility deposits was not set up to increase cash accounts in the general ledger.

Effect Or Potential Effect: Reconciliations between the bank balances and the City general ledger were not completed during 2019 for the Utility funds which prevented the City from providing a general ledger that was accurately stated with regard to cash until the correcting entries were posted in October 2019.

Views Of Responsible Officials: Both the utility billing system and MUNIS accounting system were implemented at approximately the same time. Bridging the two systems was not included in the project scope of either implementation and therefore was not completed as part of go-live of MUNIS on 7/1/2018. Staff continues to work on a solution to automatically bridge the utility billing system to the financial system. Even though the deposit information was not directly transferred from utility billing to the financial system, staff was tracking the variance and was aware of the funds in the banking account not being booked into the financial system.

2019-002
Significant Deficiency

Criteria: Accountability for use of public resources is a primary element of an internal control system within a government.

For Discussion Purposes Only

Condition: The City procurement policies leave the City susceptible to questions of accountability in the award process because documentation that includes the technical evaluation of bidders and rationale of making awards is not necessarily retained in all procurement files.

Cause: For purchases using non-Federal funds, the City applies its own procurement standards, rather than a well-established framework that meets the requirements of the Federal guidelines contained in the Code of Federal Regulations in sections 2 CFR 200.318 through 200.326.

Effect Or Potential Effect: The City could make purchases that do not contain the clarity and depth of documentation that would be required when using federal funds. One area where certain city files are not consistent with federal standards is a requirement to include documentation of justification of when low bids are not selected. A second area where the City could strengthen its procurement process to be consistent with federal guidelines would be to require that technical evaluation criteria is explicitly included in the request for proposals as well a requirement that there is clear documentation included in the procurement files of the City of the evaluation of the respondent against the technical criteria. Additionally, although the City has standards of conduct covering organizational conflicts of interest contained in the Charter of the City of Independence, for purchases above a certain threshold, the City should consider having individuals responsible for making the procurement decision reaffirm their lack of conflicts of interest with regard to the specific purchase.

Views Of Responsible Officials: Staff concurs that the City's procurement policy should reflect the increased requirements required for federal grant expenditures. The major difference between the two will be adding a provision to the policy that formalizes the staff practice of having vendor procurement files include the scores used in vendor selection.

2019-003
Significant Deficiency

Criteria: All transactions occurring during the period must be recorded in the general ledger, and subsequently, must be recorded in the financial statements for the period covered by the report.

Condition: When Munis was initially implemented July 1, 2018, functionality included within MUNIS was not set up to be used to prepare the financial statement directly from information in the general ledger. Instead, the financial statement was prepared using account balances maintained in MUNIS with manual groupings completed outside of MUNIS.

For Discussion Purposes Only

Cause: Full integration of MUNIS as it pertains to financial statement preparation was not completed in the current year.

Effect Or Potential Effect: Due to the manual nature of preparing the financial information, additional reconciling schedules were required to be prepared by the City to demonstrate the completeness of the inclusion of information from the general ledger to the financial statements. A potential effect is that an unintentional error due to manual input into the financial statements would not be detected timely.

Views Of Responsible Officials: Before implementation of MUNIS, the City was using an outdated customized accounting program. The program was becoming more unstable and the staff that wrote and maintained the software retired increasing the possibility of a failure of the system. Therefore management decided to implement the core MUNIS accounting system quickly without full functionality in an effort to mitigate the risk that the City would be left without basic accounting capabilities if the legacy system failed.

For Discussion Purposes Only

Section III - Federal Award Findings And Questioned Costs

Finding 2019-004 – Significant Deficiency
CFDA: 14.218 – Community Development Block Grants/Entitlement Grants
Federal Award No. B-14-MC-29-0002, B-15-MC-29-0002, B-16-MC-29-0002, B-17-MC-29-0002, and B-18-MC-29-0002
U.S. Department Of Housing and Urban Development (HUD)
Compliance Requirement: Reporting

Criteria: *Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)):* Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status. OMB requires submission of the SF-425 report in an effort to obtain financial information from the recipients of Federal funding assistance. HUD must collect and review this report for compliance with applicable requirements. The reporting frequency is quarterly.

Condition/Context: In our non-statistically valid sample, we noted in both instances of the two tested where the City did not submit the SF-425 reports by the required deadline. One report was 366 days past the deadline, and the other report was 93 days past the deadline. The City did not properly implement internal controls over the reporting compliance requirements to ensure that SF-425 reports were filed timely.

Effect: The City failed to meet the required deadline for a report submission. The local field office did not receive the information in the form SF-425 in a timely basis.

Questioned Costs: None.

Identification As A Repeat Finding: This is not a repeat finding in an immediately prior audit period.

Recommendation: The City should implement review procedures over reporting and formalize the report submission process to ensure compliance.

Views Of Responsible Officials: Refer to Corrective Action Plan.

For Discussion Purposes Only

CITY OF INDEPENDENCE, MISSOURI

CORRECTIVE ACTION PLAN
For The Year Ended June 30, 2019

Finding 2019-001

Personnel Responsible For Corrective Action: Nancy Cooper, Accounting Supervisor

Anticipated Completion Date: Completion date for correcting entries was October 16, 2019. Planned completion of reviewed reconciliation reporting system is May 31, 2020

Corrective Action Plan: Staff now performs a monthly reconciliation that properly accounts for all funds in the City's banking accounts. Further action is for a detailed reconciliation report to be prepared by the Accountant II and reviewed by the Accounting Supervisor.

Finding 2019-002

Personnel Responsible For Corrective Action: Bryan Kidney, Director of Finance and Administration

Anticipated Completion Date: Planned completion of recommended procurement policy is June 30, 2020.

Corrective Action Plan: Staff will bring forward a recommended procurement policy to the governing body that encompass the guidelines contained in the code of Federal Regulations in sections 2 CFR 200.318 through 200.326.

Finding 2019-003

Personnel Responsible For Corrective Action: Cindy Gray, Chief Finance Officer

Anticipated Completion Date: June 30, 2021.

Corrective Action Plan: Staff will complete the full implementation of MUNIS.

Finding 2019-004

Personnel Responsible For Corrective Action: Nancy Cooper, Accounting Supervisor

Anticipated Completion Date: Completion date was November 30, 2019.

Corrective Action Plan: The City fell behind on filing the quarterly SF425 reports due to staffing shortages. Current staff have been trained and realize the importance of timely filing. The City has filed the quarterly SF425 reports, and have reminders set up in their calendar system.

For Discussion Purposes Only

CITY OF INDEPENDENCE, MISSOURI

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended June 30, 2019

None

For Discussion Purposes Only