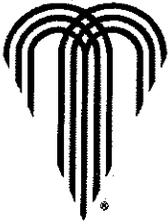


CITY OF FOUNTAINS  
HEART OF THE NATION



KANSAS CITY  
MISSOURI

## Inter-Departmental Communication

### Office of the City Auditor

**Date:** March 17, 2009

**To:** Mayor Mark Funkhouser

**From:** Gary L. White, City Auditor *G. L. White*

**Subject:** Summary of Issues Identified in Commercial Audits Since 1987

Recently you asked me to summarize the material weaknesses, reportable conditions, significant deficiencies, and other management letter comments included in the city's annual financial audits completed by commercial auditors.

Attachment A defines material weaknesses, reportable conditions, and significant deficiencies.

Attached B is a spreadsheet, identifying the issues found in the city's annual financial audits completed for fiscal years 1987 through 2008. The audit for the 2008 fiscal year identified several material weaknesses, significant deficiencies, and other comments.

If you have any questions, please contact me at 513-3320.

cc: Members of the City Council  
Wayne Cauthen, City Manager  
Jeffrey A. Yates, CFO/Director of Finance

## **Attachment A**

### **Definitions of Deficiencies**

#### **Material Weakness**

A material weakness is a significant deficiency in which the design or operation of specific internal controls does not ensure that errors or irregularities material to the financial statements will be detected promptly by employees in the normal course of their work. A material weakness is also a reportable condition; however, reportable conditions are not always serious enough to be material weaknesses (for audit periods ending on or before December 15, 2006).

A material weakness is a control deficiency or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control structure. A material weakness is also a significant deficiency however, a significant deficiency is not always serious enough to be a material weakness (for audit periods ending after December 15, 2006).

#### **Reportable Condition**

Reportable conditions are deficiencies in the design or operation of an entity's internal control structure that could adversely affect the entity's ability to record and report financial data. Reportable conditions are of a less serious nature than material weaknesses.

#### **Significant Deficiency**

A significant deficiency is a control deficiency, or a combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Attachment B  
Issues Identified In Commercial Audits FYs 1987-2008

MATERIAL WEAKNESSES and REPORTABLE CONDITIONS/SIGNIFICANT DEFICIENCIES	FISCAL YEAR																								
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987			
Insufficient staff to provide timely financials		X																							
General condition - overall lack of internal controls																									
Inadequate controls over cash accounts and bank reconciliations																									
Cash reconciliations not performed																									
Not properly recording accounts payable and encumbrances																									
Liabilities not properly recorded																									
General ledger system makes reconciling fund balances difficult																									
Interfund transfers and receivable/payables not properly identified or recorded																									
Interim reporting - unable to provide monthly financial statements																									
Improper recording - recording financial activity as "net" rather than "gross"																									
Subsidiary ledgers not maintained or reconciled																									
Lack of documentation/supervisor review of accrual documentation																									
Unable to accrue property taxes																									
Kansas City Municipal Assistance Corporation (KCMAC) does not maintain accounting records to support transactions																									
Special facility airport revenue bonds fund transactions not recorded																									
Grant Monitoring Unit does not properly account for, document and monitor all grant activities																									
Federal grant expenditures not always reconciled to city's system																									
Personnel not properly trained to use PeoplesSoft																									
Inadequate segregation of duties in PeoplesSoft																									
Inadequate documentation and supervision of nonroutine accounting entries																									
Water - financial information not properly prepared																									
Water - construction work-in-progress not reviewed																									
Water - cash balances not reconciled on regular basis																									
Water - overhead costs not always capitalized																									
Water - unable to determine whether project funds have negative balances																									
Grant receivables incorrectly reported																									
Insufficient documentation for grant journal vouchers																									
Grants - unable to verify time records/billings																									
Grant change orders not documented or limited																									
Grants - failed to comply with State Emergency Management Agency reporting requirements																									
Insufficient record keeping and analysis - city not analyzing account balances																									
Deficit balances on internal service accounts																									
Insufficient controls supporting assumptions on alternative investments																									
Lack of management of encumbrances																									
Unable to track fixed assets in PeoplesSoft																									
Capital assets for Sprint Arena and Kansas City Live not recognized																									
Fountains, statues, and monuments not depreciated																									
Use of PeoplesSoft blanket payroll approvals																									
Controls over encumbrances and fixed assets only performed annually																									
Lack of communication among departments regarding capital assets																									

Key  
 MW - Material Weakness  
 X - Reportable Condition (identified as a Significant Deficiency in 2007 and 2008).  
 - Other Comments

Attachment B  
Issues Identified in Commercial Audits FYs 1987-2008

MATERIAL WEAKNESSES and REPORTABLE CONDITIONS/SIGNIFICANT DEFICIENCIES	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
Unable to reconcile capital records																							
PC Lifecycle - records not reconciled (leading to improper returns)																							
Information Technology - access to programs and data not enforced		X																					
Information Technology - documentation not maintained to justify program change and development		X	X																				
<b>OTHER IMPROVEMENTS NEEDED IN INTERNAL CONTROLS:</b>																							
Real Estate tax receivable subsidiary ledger not maintained																							
Special facility airport revenue bonds fund transactions not recorded																							
KCMAC - large number of adjusting entries required																							
Deterred compensation plans - no accounting system																							
Grants management - documentation is inadequate - reports not reconciled																							
Collateral pledged on investments exceeded restrictions and deposits not sufficiently secured with collateral																							
Inventory segregation of duties inadequate at Aviation Department																							
Cash collections - city should heed comments from prior management letters/est controls																							
Procedures manual for cash collection points not strictly adhered to and needs to be revised																							
Cash collections - Vital Statistics employees performed incompatible duties																							
Cash deposits - duties not segregated																							
Cash collections - golf courses - duties not segregated																							
Cash collections - special gifts - Parks and Recreation collections not properly recorded and donors not given receipts																							
Cash collections - city pools - duties not segregated																							
Cash receipts - city had outstanding deposits greater than 90 days																							
Concessionaire contracts - airports - audited revenue reports not received																							
Auditorium Plaza Garage parking facilities revenue collections - controls not in place ensuring all revenues are reported																							
Storeroom and duplicating inventories - goods stored in elevator lobby																							
Reconciliation of department records for water/sewer/airport performed by outside auditors																							
Records between Aviation and Accounts are not reconciled																							
Aviation depreciation records are not reconciled until year end																							
Aviation does not reconcile retained earnings or contributed capital accounts																							
No segregation of duties over cash receipts - Parks and Recreation																							
KCMAC debt service fund - trust account actively not recorded in general ledger																							
Library of bond ordinances not maintained and reviewed																							
Broadway Bridge toll collection - not all daily revenue reports completed																							
Warrants not always matched to requisition																							
Street cut and plumbers' deposits not reconciled to general ledger																							
Water and sewer funds reconciliations not routinely performed or reviewed																							
Water - cashiers not reconciling daily																							

**Key**  
 MW - Material Weakness  
 X - Reportable Condition (identified as a Significant Deficiency in 2007 and 2008).  
 x - Other Comments

Attachment B  
Issues Identified in Commercial Audits FY's 1987-2008

	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
<b>OTHER IMPROVEMENTS NEEDED IN INTERNAL CONTROLS:</b>																							
Water - timely deposits of checks not stated in policy																							
Aviation - purchasing with invalid or no contract																							
Not enforcing reporting requirements on contracts																							
Subrecipient monitoring - improperly completed cost statements																							
Unauthorized bank accounts existing																							
Tax bills cannot be recalculated - city cannot determine taxes																							
Broadway Bridge revenue bond debt covenant - inspection not filed because city failed to provide consultant necessary information																							
Electronic data processing - implement prior years' comments																							
Electronic data processing - certain project and technical support functions do not exist or report to inappropriate organizational units																							
Electronic data processing - standards and procedures are informal and unwritten																							
Electronic data processing - system planning not formally documented																							
Electronic data processing - standards and procedures for system development are not consistent																							
Electronic data processing - insufficient data security controls																							
Electronic data processing - no formal disaster recovery provisions made																							
Electronic data processing - no city auditor review of design																							
Electronic data processing - file backup and recovery not routinely moved offsite or performed																							
Electronic data processing - contract programmers working for and reporting to multiple department heads																							
Electronic data processing - not using personal computer applications to increase efficiency																							
Long-term debt account group - no account for city obligations																							
Not properly recording accounts payable and encumbrances																							
Interfund transfers and receivables/payables not properly recorded																							
Intern reporting - unable to provide monthly financial statements																							
Special housing rehabilitation loan fund subsidiary records are not reconciled to the general ledger																							
Warrants payable - no analysis of reconciling items																							
Special assessment records between Finance and Treasury not reconciled																							
Special assessment - no deferred revenue account																							
Special assessment - general ledger - two methods of accounting are used within the same fund																							
Special assessment - no procedure to determine adequacy of allowance for doubtful accounts																							
Special assessment - KIVA excludes retroactive payments from reports																							
Pension plan trust statements not adequately reconciled to general ledger																							

**Key**  
 MWV - Material Weakness  
 X - Reportable Condition (identified as a Significant Deficiency in 2007 and 2008).  
 x - Other Comments

Attachment B  
Issues Identified in Commercial Audits FYs 1987-2008

	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
<b>OTHER IMPROVEMENTS NEEDED IN INTERNAL CONTROLS:</b>																							
Arbitrage calculations - not calculated for all bond issues subjected to requirement																							
Deferred compensation plan reconciliation not performed on a timely basis																							
General fixed assets account group and aviation fixed assets - inventory completed without written instructions and supervision																							
Receiving reports - no requirement to include it with payment requisition																							
Lack of documentation for fixed assets																							
Accounting records not completed correctly or in timely manner																							
No supporting documentation from state or county for tax abatement																							
Lack of maintenance of debt financing facilities required by debt covenants																							
Changes to employee records not reviewed																							
Payroll - invalid Social Security numbers found																							
ITD - no process to authorize changes to program code																							
ITD - program testing/development not documented																							
ITD - access rights to programs, data, and computer operations may be inappropriate																							
ITD - no way to distinguish emergency from regular changes																							
Year 2000 computer changes not subject to same procedures																							
City funds having deficit balances																							
Interfund account balances owed between funds at year-end																							
<b>EFFICIENCY ISSUES:</b>																							
Investment earnings - cash flow projections not prepared to analyze cash requirements																							
Investment earnings - investment yield analyses not prepared																							
Investment earnings - municipal court appearance bond fund contained funds in excess of daily operating needs																							
Investment earnings - special deposits funds - timely review of accounts not performed																							
Liquor bond control - expenses incurred exceed bond amount																							
Overhead cost allocation plan - internal service (working capital) funds recorded net losses																							
Overhead cost allocation plan - consumer services division - costs not allocated																							
Overhead cost allocation plan - intergovernmental revenue - city could benefit from cost allocation plan																							
Year 2000 - action plan not developed																							
Year 2000 - insufficient authority given to ITD																							
Year 2000 - minutes not taken at meetings to address problems																							
Year 2000 - mitigate risks in event planning, claims management, and vendor compliance status																							
Payroll system lacking technical support, computer file size, and security administration																							
No written disaster recovery plan in place																							
E-Business - Revenue Division should allow e-filing																							

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 x - Other Comments

Attachment B  
Issues Identified in Commercial Audits FYs 1987-2008

	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
<b>EFFICIENCY ISSUES:</b>																							
Water Services does not have disaster recovery plan																							
Water Services - data edit programs interfacing meter readers to billing system undocumented																							
Water Services - Oracle not utilized to enhance effectiveness and efficiency																							
Water Services - access rights and approvals not documented																							
Water Services - some have inappropriate access to Oracle																							
Departments not providing timely information to Finance (fiscal officers)			X																				
<b>ACCOUNTING PROCEDURES AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>																							
Additional training should be provided																							
Staffing - Finance roles and responsibilities should be investigated																							
Accounting manual is inadequate			X																				
Excessive number of funds																							
Real estate and property tax revenues- allowance for uncollectible accounts not determined by city on a periodic basis																							
Replacement tax receivable - relied on independent auditors to obtain data																							
Water has not appropriately adjusted the allowance for uncollectible accounts																							
Special assessments not recorded in accordance with GAAP																							
Premiums/discourt on investment securities - not accounted for in accordance with GAAP																							
Investment securities - purchased interest not recorded at original cost																							
Investment securities - method for calculating accrued interest do not conform to GAAP																							
Investment income - no policy to allocate income from pooled investments																							
Did not address impact of adopting GASB 34																							
No process to assess whether entity is component unit																							
Posted erroneous journal entries																							
Inventories - Broadway Bridge - parts purchased not capitalized																							
Inventories - water and sewer funds inventory recorded at cost plus 20 percent markup																							
Inventories - airport fund procedures do not adhere to stated policies																							
Inventories - public works working capital fund inventories - procedures not in place to identify and maintain obsolete inventory																							
Fixed asset accounting - internal service fund assets not capitalized when purchased																							
Fixed asset accounting - contributed sewer lines not always recorded																							
Fixed asset accounting - sewer construction in progress - city does not always close contracts when completed																							
Sewer projects interest cost capitalized based on actual construction expenditures																							
Fixed asset accounting - general ledger not updated for activity in storeroom and duplicating fund																							
General fixed asset disposition - not all disposals properly recorded																							

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 - Other Comments

Attachment B  
Issues Identified in Commercial Audits FYs 1987-2008

ACCOUNTING PROCEDURES AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
General fixed assets - not updating records																							
Problems with fixed asset inventory verification																							
No written policies on handling receiving documents for physical goods																							
Internal service fund - capitalized fixed assets not according to GAAP			X																				
Internal service fund - depreciation expense of fixed assets not recorded																							
Nonroutine transactions resulted in several audit adjustments																							
Risk management - did not determine correct level of reserves																							
Risk management - claims and payment statistics not in proper level of detail																							
Same account used to collect property taxes and interest from taxes																							
Property retirement and interest expense recorded in same account																							
Bank account - cumulative claim reserve fund - general ledger not reconciled to bank statement																							
Claims payable - cumulative claim reserve fund - probable amounts not identified																							
Independent auditors determine compensated absences accrual																							
Deposits not recorded until bank statement is received																							
Funding deficiency of firefighters' pension and police systems																							
Reserve for unidentified and undistributed receipts - funds remained in suspense																							
Cash with fiscal agents - periodic matured coupons and bonds payable in debt service and enterprise funds not prepared																							
Aviation general ledger entries not reviewed by supervisor																							
Special assessment bonds are not reflected in general long-term debt account group																							
Capital leases in the municipal equipment lease fund not properly recorded																							
American Royal Center concession revenues - city should verify accuracy																							
American Royal Center Facilities rental revenue - signed contracts and approval or special rate charges not always available																							
American Royal Center - counter tracking cars parked not functioning																							
American Royal Center - recommended recording revenue/expense at gross																							
American Royal Center - needs to determine whether all Form 1099's were provided																							
American Royal Center - department's and city's expenditure summary not reconciled																							
Earnings tax refunds - improper matching to related revenue																							
Motor vehicle delinquent tax collections not properly recorded																							
Property tax reserve for refunds - inconsistencies in revenue recognition																							
General fixed asset account group - no individual has overall responsibility																							
Cash account - Treasury report not reconciled to general ledger																							
Cash account - bank accounts not recorded on general ledger																							
Did not review and/or record activity on cash accounts																							
Not all agency funds reconciled																							
Other matters - component units did not complete audits in timely manner																							

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- Other Comments

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Issues Identified in Commercial Audits FYs 1987-2008

	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
<b>ACCOUNTING PROCEDURES AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>																							
Subrecipients not submitting audits in timely manner																							
Special purpose bank accounts - general ledger not adjusted to reconciled balances																							
Aviation did not include a discussion of capital assets in their Management's Discussion and Analysis				X																			
Aviation - budgetary accounts not netting to zero																							
Aviation - general ledger and subsidiary ledgers are not integrated																							
Grant accruals not recorded as revenue receivable																							
Bond covenants not being sufficiently monitored by city																							
Estimates used in calculating allowance for doubtful accounts not reviewed		X																					
Aviation - unapplied accounts receivable payments		X																					
Water - billing system cannot produce aged accounts receivable listing																							
Water - improperly charged construction expenses																							
Water - deposit detail records not reconciled to general ledger																							
Water - recording bad debt expense in water and sewer funds																							
Water - using inappropriate billing cycles and not analyzing fluctuations																							
Water - no receivable allowance for unbilled portion of accounts receivable																							
Water - formal security policies not developed/passwords not required/ user access requests not on file																							
Water - should consider reducing the number of interfaces while implementing Oracle																							
Water - blanket purchase orders periodically overextended																							
Trial balance account balances in error																							
Previous encumbrances not reviewed or closed																							
Code of ethics not signed																							
Employee and firefighter pension journal entries not recorded																							
Revenue Division - checks not endorsed timely																							
Legal claims - not all payments were properly approved	X																						

	FISCAL YEAR																						
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	
Material Weaknesses	8	3	1	6	10	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Reportable Conditions/Significant Deficiency	8	8	4	6	10	8	4	1	4	1	1	0	0	1	0	0	0	0	0	0	0	0	
Other Comments	3	6	12	1	0	0	11	21	16	20	21	11	12	14	22	23	28	25	34	39	46	51	
Total Comments	11	14	16	7	10	8	15	22	20	21	22	11	12	15	23	27	33	30	39	44	51	59	

- Key**  
 MWV - Material Weakness  
 X - Reportable Condition (identified as a Significant Deficiency in 2007 and 2008).  
 - Other Comments