

Review of Audits of Outside Agencies

March 2006

City Auditor's Office

City of Kansas City, Missouri

March 1, 2006

Honorable Mayor and Members of the City Council:

Non-municipal agencies receive substantial taxpayer support. In fiscal year 2005, 46 agencies received almost \$134 million in funding or pass-through money to operate or administer programs or services that further the public good. This funding represented about 22 percent of the city's general municipal program expenditures during the fiscal year.

It is important that each agency's financial management is sound. Agencies receiving \$100,000 or more from the city in a year are required to engage a certified public accountant to conduct a financial audit and a qualified professional to analyze the agency's internal control structure. The city's Code of Ordinances requires that this office annually report the results of the agencies' commercial audits to the Mayor, City Council, and City Manager.

Commercial auditors for 13 agencies had findings they were required to report. Five agencies did not submit their audits as required and an additional ten agencies did not submit the required internal control analyses.

The city has a significant financial stake in many of the non-municipal agencies. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To give a more complete picture of the financial health of these agencies, this report includes financial analyses for 11 reporting agencies that received over \$1 million in fiscal year 2005. For these 11 agencies, we identified eight agencies with at least one weak financial indicator.

This year we surveyed agencies about governance issues. Of the agencies that responded, all reported that the board or a board committee reviewed their commercial audit; almost all had at least one financially literate board member; most board members were independent of the agency; almost all agencies had a conflict of interest policy; and almost half of the agencies had a whistle blower policy. The level of dependence on city funding and the level of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. We sent a draft report to the City Manager and monitoring departments for their review on February 21, 2006. The team for this project was Joyce Patton and Nancy Hunt.

Mark Funkhouser
City Auditor

cc: Wayne A. Cauthen, City Manager

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Introduction

Objectives

The purpose of this audit of outside agencies is to provide elected officials and city staff with information on the financial condition and internal controls of agencies receiving significant city funding and assist them when making decisions about future funding for these agencies.

This audit was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri and Kansas City Code of Ordinances Section 2-113. Code Section 2-113 requires that the City Auditor review the audits of outside agencies and annually report the negative opinions, reportable conditions, and material weaknesses to the Mayor, City Council, and City Manager.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.¹

Scope and Methodology

An outside agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service that furthers the public good.² Our review was limited to those outside agencies receiving \$100,000 or more from the city in fiscal year 2005. This review is based on the audit reports we received from these agencies between February 1, 2005 and February 14, 2006. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Our review was performed in accordance with generally accepted government auditing standards. We do not include a written response from management because we do not make any recommendations; however, we provided a draft copy to the City Manager and monitoring departments. Audit methods included:

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.

² Contracts with the Commissioner of Purchases and Supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

- Identifying outside agencies that received at least \$100,000 from the city in fiscal year 2005.
- Summarizing the findings of the agencies' commercial auditors.
- Identifying agencies' planned corrective actions and monitoring department oversight activities.
- Surveying agencies on a variety of governance issues and obtaining Form 990 returns.
- Calculating selected financial ratios for those agencies receiving \$1 million or more from the city during fiscal year 2005.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

Section 2-113 of the Code of Ordinances requires that city contracts include a provision that any agency receiving \$100,000 or more in city funding within a year engage a certified public accountant (CPA) to conduct a financial audit and requires the CPA to submit the audit, management letter, and response to the management letter to the City Auditor. The annual audit is to be submitted to the monitoring department within six months of the agency's fiscal year-end. In addition, the agency is required to engage a professional qualified to analyze the agency's internal control structure, and the professional is to furnish the City Auditor with a copy of the analysis.

Funding

Non-municipal agencies receive substantial taxpayer support. During fiscal year 2005, the city provided 46 non-municipal agencies with almost \$134 million in funding, representing about 22 percent of the city's general municipal program expenditures during that year. (See Exhibit 1.) Seven city departments contract with these outside agencies and are responsible for monitoring the agencies' performance. The magnitude of the city's expenditures devoted to non-municipal agencies makes it important for elected officials to be informed of any concerns expressed by an agency's commercial auditor that may jeopardize the

agency's ability to safeguard and use properly the funding it receives from the city.

Exhibit 1. Funding Provided to Selected Outside Agencies, Fiscal Years 2003 – 2005

Agency	2003	2004	2005
American Jazz Museum, Inc.	\$ 467,571	\$ 674,000	\$ 674,000
Black Economic Union of Greater Kansas City	540,029	1,861,253	297,313
Bridging the Gap, Inc.	518,315	389,599	450,100
Cabot Westside Health Center	206,148	191,497	189,390
Children's Mercy Hospital	3,562,596	3,207,411	2,058,485
Community Assistance Council, Inc.	149,192	193,466	248,355
Community Development Corporation of Kansas City	341,099	587,987	424,891
Community LINC, Inc.	135,071	240,801	123,474
Community Movement for Urban Progress, Inc. ³	158,636	171,604	110,899
Convention and Visitors Bureau of Greater Kansas City	5,795,528	4,843,303	5,122,325
Economic Development Corporation of Kansas City, Mo.	1,220,648	1,196,964	943,018
Friends of the Zoo, Inc., of Kansas City, Missouri	4,069,730	4,000,000	3,994,223
Good Samaritan Project, Inc.	895,805	722,978	652,027
Greater Kansas City Housing Information Center	192,765	201,093	147,305
Guadalupe Center, Inc.	388,902	416,870	263,855
Heartland Aids Resource Council	205,984	111,174	111,659
Hispanic Economic Development Corporation	1,076,357	991,213	158,778
Hope House, Inc.	105,419	115,192	129,286
Housing and Economic Development Financial Corporation	24,385,586	12,054,531	3,437,400
Kansas City Area Transportation Authority	31,318,419	25,927,506	44,483,447 ⁴
Kansas City Free Health Clinic	1,279,241	1,094,172	1,162,085
Kansas City Neighborhood Alliance	137,193	124,910	133,977
KCMC Child Development Corporation	237,186	220,959	113,309
Legal Aid of Western Missouri	758,962	547,324	613,203
Liberty Memorial Association	0	143,727	819,881
Mattie Rhodes Counseling and Art Center	183,087	288,119	126,116
Metropolitan Ambulance Services Trust	4,419,422	10,157,310	8,637,189
Metropolitan Lutheran Ministry	325,636	228,665	254,323
Minority Contractors Association of Greater Kansas City	183,203	154,301	166,218
Neighborhood Housing Services of Kansas City, Inc.	127,242	121,223	121,371
Newhouse, Inc.	141,643	188,457	167,586
Northland Neighborhoods, Inc.	257,642	224,131	257,658
Old Northeast, Inc.	252,479	254,135	160,214
Operation Breakthrough, Inc.	264,240	226,661	109,375
Planned Industrial Expansion Authority of Kansas City, Mo.	264,020	543,655	271,098
Rose Brooks Center, Inc.	158,640	239,439	185,299
Samuel U. Rodgers Health Center, Inc.	702,749	612,498	457,860
SAVE, Inc.	1,129,650	1,036,063	1,046,505
Swope Community Builders ⁵	505,355	717,564	540,719
Swope Health Services ⁶	839,917	790,322	606,028

³ Doing business as Move UP, Inc.

⁴ Funding was increased in fiscal year 2005 due to the passage of a 5-year, three-eighths-cent public transit sales tax.

⁵ Formerly known as Midtown Community Development Corporation.

⁶ Formerly known as Swope Parkway Health Center.

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Agency	2003	2004	2005
Tax Increment Financing Commission of Kansas City, Mo.	28,180,797	34,606,336	35,324,959
Truman Medical Center, Inc.	\$ 23,674,157	\$ 22,484,939	\$ 16,817,225
Twelfth Street Heritage Development Corporation	191,700	163,477	150,579
Union Station Kansas City, Inc.	1,222,248	1,252,032	1,302,289
United Services Community Action Agency	137,747	163,327	149,932
Westside Housing Organization, Inc.	260,866	248,316	161,198
Total	\$141,568,822	\$134,930,504	\$133,876,426

Source: City's financial management system (PeopleSoft).

Analysis

Summary

Commercial auditors for 13 non-municipal agencies receiving \$100,000 or more in fiscal year 2005 reported accounting, internal control, or material compliance problems. For each of these agencies, we have prepared summaries of the specific weaknesses identified; the agency's planned corrective action; and the monitoring department's oversight activities. Five agencies did not provide their financial reports for our review and an additional ten agencies did not provide an internal control review.

The financial condition of eight of the 11 agencies that received \$1 million or more in funding in 2005 is of concern. We compiled financial indicators to evaluate an agency's liquidity, financial performance, and long term stability. Our financial indicator analysis found at least one weakness in the financial position of eight agencies including one agency that did not provide their financial audit.

We surveyed agencies about a variety of governance issues. All of the reporting agencies had a board of directors or committee review the financial audit prepared by the agency's commercial auditors; almost all had at least one financially literate board member; most board members were independent of the organization; almost all agencies had a conflict of interest policy; and almost half of the agencies had a whistle blower policy. The level of dependence on city funding and the level of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies.

Agencies Not Submitting Reports

Five agencies that collectively received almost \$4 million in city funding during fiscal year 2005 did not submit their most recent financial audits within the established timeframe. City code requires that contracts with agencies include a provision that audits be submitted to the city within six months of the agency's fiscal year end.⁷ Although their fiscal years ended more than six months earlier, the agencies had not submitted copies of their financial audit by February 14, 2006. As a consequence, recent information on the accounting and internal control structures of these agencies is not available to elected officials, the City Manager, or monitoring departments. (See Exhibit 2.)

⁷ Kansas City Code of Ordinances Section 2-113 (4).

Exhibit 2. Funding of Non-Reporting Agencies

Agency	Audit Year Ending	Funding FY 2005
Community Movement for Urban Progress, Inc.	6/30/2005	\$ 110,899
Heartland Aids Resource Council	12/31/2004	111,659
Housing and Economic Development Financial Corporation	5/31/2005	3,437,400
KCMC Child Development Corporation	6/30/2005	113,309
Twelfth Street Heritage Development Corporation	5/31/2005	150,579
Total		\$3,923,846

Sources: City's Financial Management System (PeopleSoft).

Staff from the Community Movement for Urban Progress, Inc., did not anticipate their audit would be finished until the end of January. The contract between the Health Department and the Heartland Aids Resource Council, Inc., did not include a financial audit requirement. The Receiver for the Housing and Economic Development Financial Corporation stated that the agency's audit would not be completed until the second quarter of 2006. KCMC Child Development Corporation closed in January 2005 and filed for bankruptcy under Chapter 11. Twelfth Street Heritage Development Corporation's President and Chief Executive Officer requested an extension from the city's Housing Administrator until February 28, 2006 to complete the audit. This request was denied.

Some agencies submitting financial audits did not submit internal control reports. In addition to submitting a financial audit, Kansas City Code of Ordinances Section 2-113 requires agencies receiving \$100,000 to submit an internal control analysis to the City Auditor. Ten agencies failed to meet this requirement. (See Exhibit 3.) When an agency does not provide an internal control report, Councilmembers do not have information as to whether the agency's internal control structure is adequate to safeguard funds provided to it.

Exhibit 3. Agencies Not Submitting Internal Control Reports

Agency	Audit Year Ending	Funding
Cabot Westside Health Center	12/31/2004	\$ 189,390
Children's Mercy Hospital	6/30/2005	2,058,485
Community Assistance Council, Inc.	12/31/2004	248,355
Convention and Visitors Bureau of Greater Kansas City	12/31/2004	5,122,325
Mattie Rhodes Counseling and Art Center	12/31/2004	126,116
Minority Contractors Association of Greater Kansas City	5/31/2005	166,218
Old Northeast, Inc.	12/31/2004	160,214
Swope Health Services	12/31/2004	606,028
Union Station Kansas City, Inc.	12/31/2004	1,302,289
Westside Housing Organization, Inc. and Subsidiaries	5/31/2005	161,198
Total		\$10,140,618

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

Agencies with Reported Problems

Commercial auditors for 13 of the agencies submitting audits had findings they were required to report. The proportion of agencies with findings remained unchanged over the prior review period while the number of reporting agencies and number of findings increased. (See Exhibit 4.) (See Appendix A for a summary of the audit and internal control findings by agency. See Appendix B for an explanation of the accounting terminology used in Exhibits 4 and 5.)

Exhibit 4. Type of Finding by Year⁸

Finding	Number of Agencies				
	2002	2003	2004	2005	2006
Qualified Opinion	1	2	1	2	3
Disclaimer of Opinion	1	1	0	0	0
Material Weakness	4	4	1	4	4
Reportable Condition	13	11	7	12	12
Noncompliance	4	5	4	6	8
Agencies Reviewed	49	45	46	41	45
Agencies with Findings	15	14	8	12	13
Percent of Agencies with Findings	31%	31%	17%	29%	29%

Sources: Annual agency commercial audits.

Exhibit 5. Agencies with Findings

Agency	Audit Year Ending	Qualified Opinion	Material Weakness	Reportable Condition	Non-Compliance
American Jazz Museum, Inc.	4/30/2005			Yes	Yes
Black Economic Union of Greater Kansas City	12/31/2003	Yes	Yes	Yes	Yes
Black Economic Union of Greater Kansas City	12/31/2004				Yes
Children's Mercy Hospital	6/30/2004			Yes	Yes
Community Development Corp. of Kansas City	2/28/2005	Yes			
Good Samaritan Project, Inc.	12/31/2004			Yes	
Housing & Economic Development Financial Corp.	5/31/2004		Yes	Yes	Yes
Kansas City Free Health Clinic	3/31/2005			Yes	
KCMC Child Development Corporation	6/30/2004	Yes	Yes	Yes	Yes
Metropolitan Ambulance Services Trust	4/30/2005			Yes	
Metropolitan Lutheran Ministry	6/30/2004			Yes	Yes
Metropolitan Lutheran Ministry	6/30/2005			Yes	
Samuel U. Rodgers Health Centers Inc.	9/30/2004			Yes	Yes
Swope Community Builders and Subsidiaries	12/31/2004		Yes	Yes	Yes
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2005			Yes	

Sources: Annual agency commercial audits.

⁸ The years within the exhibit indicate the year in which an agency's audit was included in this annual report. An agency audit can have multiple findings and an agency may submit more than one report in a review period.

American Jazz Museum, Inc. (April 30, 2005)

	2003	2004	2005
Funding	\$467,571	\$674,000	\$674,000
Material Weakness		Yes	
Reportable Condition		Yes	Yes
Non-Compliance		Yes	Yes

Reportable condition:

The American Jazz Museum, Inc., failed to keep an asset register for all the fixed assets, artifacts, and collectibles under its control. The City of Kansas City, Missouri, owns these assets, but there is no communication between the city and the organization regarding asset additions or discarded assets.⁹

While testing randomly selected expenditure items, the agency's auditors noted the agency lacks adequate and consistently applied procedures for the approval and authorization of payments. Expenditures were not approved by authorized personnel before payment.⁹

Management's response:

American Jazz Museum management is addressing its reportable condition by verifying the agency complies with the city for notification of asset purchases; periodically checking city assets attributed to the agency; requiring purchase orders for payments not supported by contracts; approval of invoice amount; and requiring the Executive Director to authorize check requests over the purchase order amount.

Noncompliance:

The American Jazz Museum, Inc. failed to contribute funds to the Endowment account for the second year running. These funds were contributed by donors with a restriction that the funds should be contributed to the Endowment account. As of April 30, 2005, funds in the amount of \$87,250 were not contributed to the account.⁹

The American Jazz Museum, Inc. records failed to identify the current balance of funds that are restricted, the nature of the restrictions, and the balance of funds that are unrestricted and available for use in conducting the business of the organization. As a result, on April 30, 2005, the organization's net assets showed a deficit of \$294,705 on the unrestricted net assets, which reflects the use of restricted funds for a purpose other than donor-imposed restrictions.⁹

⁹ American Jazz Museum, Inc., 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, Schedule of Findings Related to the Financial Statement Audit Required to be Reported in Accordance with Generally Accepted Government Auditing Standards, JMA Chartered, for the year ending April 30, 2005.

Management's response:

In their response, American Jazz Museum, Inc. management reported paying the amount due the Endowment account and establishing procedures ensuring future Endowment contributions are remitted to the Endowment account in a timely manner and no disbursements are made from the restricted account without the program funds to support it.

City Development's response:

A facilities manager employed by the city is on-site at the museum. The American Jazz Museum is adhering to cash disbursement procedures, and the agency set up a separate account for restricted funds.

**Black Economic Union of Greater Kansas City
(December 31, 2003)**

	2003	2004	2005
Funding	\$540,029	\$1,861,253	\$297,313
Qualified Opinion	Yes	Yes	
Material Weakness		Yes	
Reportable Condition	Yes	Yes	
Non-Compliance		Yes	Yes
Changed CPA		Yes	Yes

Qualified opinion:

Black Economic Union's (BEU's) auditors were unable to obtain collaborating evidence to support the assertions in the financial statements and accompanying notes related to pending or threatened litigation, asserted or unasserted claims, assessments, and other legal issues. The agency's lawyers failed to provide the auditors details and evaluations of pending or threatened litigation, asserted claims, and assessments.¹⁰

BEU could not provide adequate documentation supporting assertions contained in the financial statements and accompanying notes related to \$2.6 million in notes payables to the Housing and Economic Development Financial Corporation (HEDFC). HEDFC failed to respond to the BEU external auditor's confirmation request. The auditors were also unable to confirm a \$310,166 note payable to Banc of America Community Development Corporation.¹⁰

Management's response:

BEU management mailed their attorney a confirmation letter which their attorneys acknowledge was lost during relocation. BEU management sent confirmation letters regarding the notes payables in November 2004; however, HEDFC did not confirm the balances until February 2005.

Qualified opinion and reportable conditions:

BEU elected to restate the carrying value of certain properties with the insured values instead of historical costs. This is inconsistent with generally accepted accounting principles. The departure's impact is a \$1,502,123 net reduction in the properties' carrying values. The agency valued another property held for sale at \$65,000 using a price negotiated by the buyer as replacement value. Also, the agency did not include equipment, furniture, and fixture costs with a net carrying value of

¹⁰ Black Economic Union of Greater Kansas City, Independent Auditor's Report, Schedule of Findings and Questioned Costs, JMA Chartered, for the year ending December 31, 2003.

\$91,796 in its financial statements because of issues relative to the physical existence or lack of historical record to support it.¹¹

Management's response:

BEU inventoried the agency's tangible personal property in 2004. The agency also tracks asset acquisitions and dispositions in its database and is analyzing its long-lived assets to make sure such assets are reported in accordance with GAAP. BEU created a real estate database in 2004. Adjustments to the database are made as property is purchased and sold.

Material weakness, reportable condition, and noncompliance:

BEU paid a contractor without the contractor submitting invoices for approval. The contractor maintained no documentation to support the invoice amounts. The contractor had control over the account and periodically transferred money out of the account.¹²

BEU paid the contractor in excess of actual expenditures incurred. Payments were not supported by invoices or other documentation.¹²

BEU appears to have made duplicate payments to contractors.

A BEU contractor had complete and unlimited access to the agency's bank account containing Community Services Block Grant funds. The contractor could draw down funds from the agency at any time. The contractor generated its own invoices and paid itself from the agency's account without agency personnel involvement. The contractor authorized all payments during the fiscal year from the program fund.¹²

Three times BEU drew down Community Services Block Grant funds in excess of their immediate requirements in violation of federal rules and regulations.¹²

BEU could not provide adequate documentation regarding procurement of program technical assistance services from the contractor. The costs may be ineligible.¹²

Management's response:

BEU disagreed with their auditor's findings.

¹¹ Black Economic Union of Greater Kansas City, Independent Auditor's Report, Notes to Financial Statements, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, JMA Chartered, for the year ending December 31, 2003.

¹² Black Economic Union of Greater Kansas City, Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, JMA Chartered, for the year ending December 31, 2003.

Reportable condition and noncompliance:

BEU did not maintain employee timesheets ensuring payments were made for work performed and from applicable funding sources.¹²

BEU did not submit cost reimbursement reports on a monthly basis as required by its contract with the city.¹²

BEU never furnished required Financial Status Reports to Health and Human Services (HHS) during 2003. The agency's auditors were unable to verify submission dates for Progress Reports because the designated official did not sign or date the reports.¹³

Management's response:

BEU adopted a policy requiring employees to submit signed timesheets. The BEU submitted reimbursement reports on a quarterly basis in 2003 and on a monthly basis in 2004. The BEU reports filing all reports required for the HHS grant award.

Reportable condition:

BEU did not concurrently record the financial activities of one of its bank accounts relative to the Health and Human Services grant and failed to include in the books 2003 activities.¹⁴

BEU did not follow its purchasing policies and procedures. Services were procured without competitive bidding, written contracts, or price comparisons. Supporting payment documentation did not include time spent or descriptions of work performed.¹⁴

BEU did not maintain personnel files or timesheets ensuring payments were made for work performed and from applicable funding sources.¹⁴

BEU does not have a consistent policy of periodically reviewing and voiding outstanding checks.¹⁴

BEU did not record the individual tenants from whom it collected and could owe Wheatley Manor Houses security deposits.¹⁴

BEU's financial statements did not reveal an investment in and loan to the Midtown Redevelopment Corporation.¹⁴

¹³ Black Economic Union of Greater Kansas City, Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, JMA Chartered, for the year ending December 31, 2003.

¹⁴ Black Economic Union of Greater Kansas City, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, JMA Chartered, for the year ending December 31, 2003.

BEU's former Executive Director's name remained on an account for the agency's Community Service Block grant until December 2004. The former Executive Director was terminated in March 2003.¹⁵

Management's response:

BEU reconstructed the financial statements to include the HHS grant activities when the agency realized the omission. BEU uses a protected procurement process for security and for cook positions due to special circumstances. BEU's Operations Director maintains and monitors personnel files and the BEU adopted a policy requiring employees to submit signed timesheets. The BEU also adopted a policy to review and investigate outstanding checks; reviewed deposit logs; is in the process of reviewing loan and investment transactions; and is maintaining a master list of bank accounts and account signatories, which will be reviewed when officers or board members change.

Noncompliance:

BEU was not in compliance with a loan agreement article requiring the agency to make a monthly deposit of \$250 in the Replacement Reserve Fund and all surplus revenue available each month in the Operating Reserve Fund. Also, the agency did not retain the original loan agreement document for one of its debts to the Housing and Economic Development Financial Corporation.¹⁵

BEU is not in compliance with terms of a loan agreement because the agency did not maintain a minimum bank account balance.¹⁵

BEU is not in compliance with the terms of a loan agreement because the agency did not maintain copies of executed lease agreements.¹⁵

Management's response:

BEU is working with the Housing and Economic Development Financial Corporation on an adequate remedy to comply with the historic intent pursuant to the project's loan/regulatory agreements, while providing services to the residents. The project does not generate sufficient cash to fund operations. BEU's bank advised the agency to cash out a portion of a certificate of deposit. After discovering the error, the agency has been working with the bank to reconcile the matter. BEU's management implemented Standard Operating Procedures for all rental activities, including complete document execution at lease-up, a master calendar listing renewal dates of contracts, and other relevant data.

¹⁵ Black Economic Union of Greater Kansas City, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, JMA Chartered, for the year ending December 31, 2003.

City Development's response:

City Development requested Black Economic Union describe actions they are taking to address the findings.

**Black Economic Union of Greater Kansas City
(December 31, 2004)**

	2003	2004	2005
Funding	\$540,029	\$1,861,253	\$297,313
Qualified Opinion	Yes	Yes	
Material Weakness		Yes	
Reportable Condition	Yes	Yes	
Non-Compliance		Yes	Yes
Changed CPA		Yes	Yes

Noncompliance:

Black Economic Union was not in compliance with terms of a loan agreement with the Housing and Economic Development Financial Corporation. BEU has not had sufficient revenues to create reserve accounts.¹⁶

Management's response:

Black Economic Union management stated "special circumstances" caused the property to be renovated and placed with the agency. Rents from the property have not met projections.

City Development's response:

City Development requested Black Economic Union describe actions they are taking to address the finding.

¹⁶ Black Economic Union of Greater Kansas City, Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Emerick & Company, P.C., for the year ending December 31, 2004.

Children's Mercy Hospital (June 30, 2004)

	2003	2004	2005
Funding	\$3,562,596	\$3,207,411	\$2,058,485
Material Weakness			N/P ¹⁷
Reportable Condition		Yes	N/P
Non-Compliance		Yes	N/P

Reportable condition and noncompliance:

Children's Mercy Hospital did not comply with requirements regarding subrecipient monitoring that are applicable to its research and development cluster.¹⁸

Management's response:

Management is reportedly requiring subrecipients to provide supporting documentation for amounts invoiced for a sample of invoices sent throughout the fiscal year and requiring all subrecipient invoices to be approved by the principal investigator and post award accounting before they are paid.

Health Department's response:

Health discussed the finding with Children's Mercy Hospital.

¹⁷ N/P indicates internal control analysis not yet provided.

¹⁸ Children's Mercy Hospital, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs, KPMG LLP, for the year ending June 30, 2004.

**Community Development Corporation of Kansas City
(February 28, 2005)**

	2003	2004	2005
Funding	\$341,099	\$587,987	\$424,891
Qualified Opinion			Yes
Changed CPA		Yes	

Qualified opinion:

The Community Development Corporation of Kansas City has an effective 72 percent ownership interest in Linwood & Prospect Investors, Ltd. Generally accepted accounting principles require consolidation of all companies in which ownership is more than 50 percent. It was not practical to consolidate this company because audited financial statements were not available as of the date the consolidated financial statements were issued.¹⁹

Management's response:

Community Development Corporation management plans to include the financial statements of Linwood & Prospect Investors, Ltd. in their 2006 audited financial statements.

City Development's response:

City Development requested Community Development Corporation describe actions they are taking to address the finding.

¹⁹ Community Development Corporation of Kansas City, Independent Auditor's Report, Ralph C. Johnson & Company, P.C., for the year ended February 28, 2005.

Good Samaritan Project, Inc. (December 31, 2004)

	2003	2004	2005
Funding	\$895,805	\$722,978	\$652,027
Material Weakness	N/P		
Reportable Condition	N/P	Yes	Yes
Non-Compliance	N/P		
Changed CPA			Yes

Reportable condition:

Due to the size of Good Samaritan Project, Inc.'s accounting department, there is little segregation of accounting functions.²⁰

Management's response:

In a letter to the Federal Audit Clearinghouse, Good Samaritan Project Inc. management stated the agency tries to mitigate the effect of inadequate segregation of accounting functions by having the President and Treasurer actively and closely monitor the financial management of the agency.

Health Department's response:

Health discussed the finding with Good Samaritan Project, Inc. and plans to monitor progress during site visits.

²⁰ Good Samaritan Project, Inc., Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs, Schmidt, Cornish & Smith, CPA's, for the year ending December 31, 2004.

Housing and Economic Development Financial Corporation (May 31, 2004)

	2003	2004	2005
Funding	\$24,385,586	\$12,054,531	\$3,437,400
Qualified Opinion	Qualified		N/P ²¹
Material Weakness	Yes	Yes	N/P
Reportable Condition	Yes	Yes	N/P
Non-Compliance	Yes	Yes	N/P
Changed CPA	Yes		N/P

Material weaknesses and reportable conditions:

Various adjusting journal entries were made during the audit engagement resulting in a change in net assets of approximately \$5.4 million. The Housing and Economic Development Financial Corporation's (HEDFC's) financial statements would have been materially misstated without the adjusting entries. An adjustment to the outstanding notes receivable valuation account was necessary. Because of this, the interim financial statements management used throughout the year were similarly misstated. The corporation's auditors also noted interim financial statements presented to the board may have been adjusted subsequent to presentation. These entries may have been posted in a period other than the month the board reviewed and would not clearly reflect the monthly activity.²²

HEDFC used multiple accounting systems to maintain its loan database and systems are not consistently reconciled to ensure all loans are accurately recorded. As a result, loan receivables required various year-end adjustments to reconcile balances between the loan database and the general ledger.²²

Management's response:

HEDFC reportedly implemented procedures ensuring estimates are analyzed periodically and adjustments are recorded. Borrower payments are consistently applied to the loan servicing accounts and general ledger. The agency is attempting to identify resources to convert to a single database or achieve a more integrated data reconciliation.

²¹ N/P indicates financial audit and internal control analysis not provided.

²² Housing and Economic Development Financial Corporation, Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Mayer Hoffman McCann P.C., for the year ending May 31, 2004.

Noncompliance:

HEDFC management was not actively reviewing results of the city's compliance monitoring with provisions of the Davis-Bacon Act^{x23}

In several instances, HEDFC provided financing for certain projects based on the city's direction to use certain contractors without the Corporation clearly identifying the procurement procedures used to select the contractors.²³

Costs incurred for two properties were significantly in excess of the original budgets.²³

HEDFC entered into a "cost plus" contract. "Cost plus" contracts are specifically prohibited by the Corporation's federal awards.²³

Management's response:

HEDFC reportedly will communicate with the city on a quarterly basis to review compliance reports, defined the process of selecting contractors, changed policies and procedures, and amended the contract.

City Development's response:

City Development requested HEDFC describe actions they are taking to address the findings.

²³ Housing and Economic Development Financial Corporation, Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Mayer Hoffman McCann P.C., for the year ending May 31, 2004.

Kansas City Free Health Clinic (March 31, 2005)

	2003	2004	2005
Funding	\$1,279,241	\$1,094,172	\$1,162,085
Reportable Condition		Yes	Yes
Changed CPA	Yes		

Reportable condition:

Two individuals have incompatible duties in the revenue and cash receipts cycle.²⁴

Management's response:

In their corrective action plan, agency management stated the clinic will work with the auditors to attempt to implement mitigating procedures addressing the issue.

Health Department's response:

Health discussed the finding with the Kansas City Free Health Clinic and plans to monitor progress during site visits.

²⁴ Kansas City Free Health Clinic, Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending March 31, 2005.

KCMC Child Development Corporation (June 30, 2004)

	2003	2004	2005
Funding	\$237,186	\$220,959	\$113,309
Qualified Opinion	Qualified	Qualified	N/P ²⁵
Going Concern		Yes	
Material Weakness		Yes	N/P
Reportable Condition	Yes	Yes	N/P
Non-Compliance	Yes	Yes	N/P

Qualified opinion:

KCMC expensed property and equipment purchased with U.S. Department of Health and Human Services grant funds rather than capitalizing and depreciating it. This is not in accordance with generally accepted accounting principles.²⁶

Management's response:

We were unable to obtain a response from management.

Going concern:

KCMC has significant current obligations in excess of current assets; incurred a significant decrease in net assets; is subject to an ongoing investigation by U.S. Department of Health and Human Services Administration for Children and Families (ACF); and had insufficient cash flows that raise substantial doubts about its ability to continue as a going concern.²⁶

Material weakness, reportable condition, and noncompliance:

Grant funds were used to fund expenditures outside the grant period.²⁷

Management response:

KCMC reimbursed a \$12,000 invoice with nonfederal funds and discontinued the practice of paying invoices with following year funding.

²⁵ N/P indicates financial audit and internal control analysis not provided.

²⁶ KCMC Child Development Corporation, Independent Accountants' Report on Financial Statements and Supplementary Information, Notes to the Financial Statements, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending June 30, 2004.

²⁷ KCMC Child Development Corporation, Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending June 30, 2004.

Reportable conditions:

Certain individuals perform or have the ability to perform duties in the cash disbursement/accounts payable, cash receipts/accounts receivable, and payroll cycles that are incompatible from a control perspective.²⁸

KCMC Child Development Corporation has not updated the complete inventory of equipment and real property.²⁹

Management's response:

KCMC plans to change personnel responsible for logging cash receipts and opening mail; have their payroll company provide new earnings and check issued reports each pay period which managers can review and accept; and evaluate other issues and make cost beneficial change. KCMC is also planning to conduct an inventory of equipment.

Noncompliance:

For the years ended June 30, 2000-2002, ACF determined the organization paid certain salary and other benefit costs to its Chief Executive Officer in excess of the amount allowed under the grant.²⁹

KCMC Child Development Corporation has been in negotiation ACF regarding excess compensation paid to its former Chief Executive Officer.²⁹

Management's response:

KCMC has not received any guidance from the Administration for Children and Families on excessive salary and benefit costs. KCMC's attorneys assured it that the compensation paid to its former Chief Executive Officer is allowable.

Neighborhood and Community Services' Response:

Neighborhood and Community Services terminated the contract with KCMC Child Development Corporation, effective in December 2004.

²⁸ KCMC Child Development Corporation, Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending June 30, 2004.

²⁹ KCMC Child Development Corporation, Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending June 30, 2004.

Metropolitan Ambulance Services Trust (April 30, 2005)

	2003	2004	2005
Funding	\$4,419,422	\$10,157,310	\$8,637,189
Material Weakness		Yes	
Reportable Condition	Yes	Yes	Yes

Reportable condition:

Accounting entries for month-end accruals, capital assets, debt activity, and to reconcile revenue and accounts receivable were not reviewed and approved.³⁰

MAST management has not adopted a standard methodology for estimating contractual and bad debt allowances. Also, management has not prepared a monthly reconciliation or a roll forward of year-to-date activity for the uncollectible accounts allowance that would include the provisions, write-offs, and recovery activity noted during the fiscal year.³⁰

Amounts recorded in the general ledger related to revenue and account receivables were not reconciled to detailed reports from the patient billing system on a monthly basis. An unreconciled difference between the general ledger and the amounts shown in the detailed accounts receivable and revenue reports produced from the patient billing system existed throughout the fiscal year.³⁰

Management's response:

Metropolitan Ambulance Services Trust management addresses its reportable conditions by reviewing comparative financial statements, detailed ledger, and applicable journal entries; looking into other methods of estimating bad debt allowances; and monthly reconciling of accounts receivable amounts to the general ledger beginning in October 2004.

Health Department's response:

Health discussed the findings with MAST and plans to monitor progress during site visits.

³⁰ Metropolitan Ambulance Services Trust, Management Letter, KPMG LLP, for the year ending April 30, 2005.

Metropolitan Lutheran Ministry (June 30, 2004)

	2003	2004	2005
Funding	\$325,636	\$228,665	\$254,323
Reportable Condition		Yes	Yes
Non-Compliance		Yes	

Reportable condition and noncompliance:

Metropolitan Lutheran Ministry does not have sufficient staff to fully implement an internal control structure with ideal segregation of duties. A single individual has the ability to record, process, and authorize transactions, as well as reconcile accounts and make deposits.³¹

Management's response:

Metropolitan Lutheran Ministry's comptroller and executive director created a policy designating a member of the agency's Finance Committee to review and sign off on the monthly banking transaction report. The agency added the executive director to the payment authorization process and will continue to review opportunities to improve and segregate all areas of responsibilities.

Reportable conditions:

Bank reconciliations were not properly prepared or reviewed on a monthly basis for all months during the audit period. Bank reconciliations were properly prepared and completed as of year-end. However, the reconciliations did not contain any evidence of review.³¹

Metropolitan Lutheran Ministry's Christmas Store operations are managed and staffed almost exclusively by volunteers. Agency management is not involved in establishing operating guidelines or control procedures. There does not appear to be any effective monitoring activities to ensure the activities of the Christmas Store are being properly and consistently reflected in the financial statements of the organization, particularly as it relates to the identification and valuation of in-kind donations.³¹

There was no documented, consistent monitoring or review of Project Care case files by supervisory staff during the audit period.³¹

³¹ Metropolitan Lutheran Ministry, 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, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Pickett, Chaney and McMullen LLP, for the 17 month period ending June 30, 2004.

Management's response:

Management is addressing reportable conditions by resuming a full review of bank reconciliations, addressing Christmas Stores systems and controls, and integrating its homeless services into the headquarter offices.

Noncompliance:

A portion of the Homeless Services Director's salary was charged against the grant as case management expense. The Homeless Services Director does not perform case management activities.³²

Project Care client files selected for eligibility testing did not contain required documentation of the performance of HUD Housing Inspections.³²

The information in the financial sections of the Annual Progress Reports submitted during the audit period were not completed accurately and two reports were not submitted within the required 90 day time frame.³²

Metropolitan Lutheran Ministry did not maintain final, signed copies of various reports submitted for a grant.³²

Management's response:

Management addressed noncompliance findings by discussing findings with city personnel; directing staff to complete housing inspections, establishing a review process, and conducting its own internal audit; obtaining technical assistance and training on reporting procedures; and integrating homeless services into its headquarter offices to improve timely detection and correction of compliance issues.

Neighborhood and Community Services' response:

Neighborhood and Community Services terminated the contract with Metropolitan Lutheran Ministry, effective on April 30, 2005.

³² Metropolitan Lutheran Ministry, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Pickett, Chaney and McMullen LLP, for the 17 month period ending June 30, 2004.

Metropolitan Lutheran Ministry (June 30, 2005)

	2003	2004	2005
Funding	\$325,636	\$228,665	\$254,323
Reportable Condition		Yes	Yes
Non-Compliance		Yes	

Reportable condition:

Metropolitan Lutheran Ministry's Christmas Store operations are managed and staffed almost exclusively by volunteers. Agency management is not involved in establishing operating guidelines or control procedures. There does not appear to be any effective monitoring activities to ensure the activities of the Christmas Store are being properly and consistently reflected in the financial statements of the organization, particularly as it relates to the identification and valuation of in-kind donations.³³

Management's response:

Metropolitan Lutheran Ministry's Board of Directors asked the program committee to work with the current volunteers for the Christmas Store to establish policies and procedures and a schedule of time lines for operations. The agency established a planning committee to facilitate these activities.

Neighborhood and Community Services' response:

Neighborhood and Community Services terminated the contract with Metropolitan Lutheran Ministry, effective on April 30, 2005.

³³ Metropolitan Lutheran Ministry, 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, Schedule of Findings and Questioned Costs, Pickett, Chaney & McMullen LLP, for the year ending June 30, 2005.

Samuel U. Rodgers Health Center, Inc. (September 30, 2004)

	2003	2004	2005
Funding	\$702,749	\$612,498	\$457,860
Reportable Condition	Yes	Yes	Yes
Non-Compliance	Yes	Yes	Yes
Changed CPA			Yes

Reportable condition and noncompliance:

Samuel U. Rodgers Health Center currently allocates personnel costs to each program/funding source. However, after-the-fact time and efforts reports were not used to support the allocations for the year ended September 30, 2004.³⁴

The Center was not depositing drawdowns of federal funds into an interest-bearing account.

Management's response:

Management is addressing the findings by preparing after-the-fact time and effort reports and depositing drawdowns of federal funds into an interest-bearing account.

Health Department's response:

Health requested Samuel U. Rodgers' management respond to the audit findings.

³⁴ Samuel U. Rodgers Health Center, 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, Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Goldstein Golub Kessler LLP, for the year ending September 30, 2004.

Swope Community Builders and Subsidiaries (December 31, 2004)

	2003 ³⁵	2004	2005
Funding	\$505,355	\$717,564	\$540,719
Material Weakness			Yes
Reportable Condition	Yes	Yes	Yes
Non-Compliance	Yes	Yes	Yes

Material weakness and reportable condition:

Swope Community Builders and Subsidiaries did not have adequate processes, procedures, or controls in place to ensure the appropriate valuation for its accounts receivables and assets held for sale.³⁶

Management's response:

Swope Community Builders is undergoing a change of duties performed by accounting personnel to assure resources are available to provide timely and accurate accounting. The agency will also implement a policy of reviewing all accounts on a regular basis, including impairment analysis on all ongoing and completed projects.

Reportable condition and noncompliance:

Swope Community Builders and Subsidiaries did not file its Financial Status Report within the time frames contained in the grant agreement. Untimely filing led to the temporary suspension of the agency's line of credit.³⁷

Management's response:

Swope Community Builders filled two accounting positions in April 2004. Reminders are sent to staff before reporting is due and staff follow-up with the agency receiving the report.

City Development's response:

City Development requested Swope Community Builders describe actions they are taking to address their findings.

³⁵ Formerly known as Midtown Community Development Corporation.

³⁶ Swope Community Builders and Subsidiaries, Report of Independent Auditors 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, Independent Auditors' Schedule of Findings and Questioned Costs, PricewaterhouseCoopers LLP, for the year ending December 31, 2004.

³⁷ Swope Community Builders and Subsidiaries, Report of Independent Auditors 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, Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, Independent Auditors' Schedule of Findings and Questioned Costs, PricewaterhouseCoopers LLP, for the year ending December 31, 2004.

**Tax Increment Financing Commission of Kansas City,
Missouri (April 30, 2005)**

	2003	2004	2005
Funding	\$28,180,797	\$34,606,336	\$35,324,959
Material Weakness	Yes		
Reportable Condition	Yes	Yes	Yes

Reportable condition:

The Tax Increment Financing Commission does not have an adequate system in place to record and reconcile the amount of tax increment financing receivables from the various taxing authorities.³⁸

Management's response:

Neither the TIF Commission nor its commercial auditor have access to the confidential tax information needed to develop and verify the amount of TIF receivables. Because of restrictions on who may have access to tax records, it appears unlikely that the TIF Commission will be able to resolve this reportable condition.

City Development's response:

City Development did not do anything in regard to this finding.

³⁸ Tax Increment Financing Commission of Kansas City, Missouri, Report on Internal Control Over Financing Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Cochran, Head & Co., P.C., for the year ending April 30, 2005.

Financial Analysis for Liquidity, Performance, and Long Term Stability

The city has a significant stake in agencies that receive more than \$1 million dollars in funding. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To keep the Council informed, we calculated several financial ratios for the agencies receiving \$1 million or more from the city during fiscal year 2005.

We compiled five financial indicators. These indicators were selected to examine liquidity (current ratio and days of cash on hand), performance (operating margin and change in unrestricted net assets), and long term stability (debt to net assets). Because no single ratio gives a complete picture of the financial health of an organization, ratios and financial data should be viewed together to obtain an overall sense of an organization. (Appendix C contains additional information on the financial indicators. Each is briefly explained and the method of calculation defined.)

Criteria for Financial Conditions

We established evaluation criteria to determine whether an agency's financial condition was positive, mixed, or needs to be watched. Our criteria for a positive financial condition are a current ratio above one; more than 30 days of cash on hand; an increase in unrestricted net assets; a positive operating margin; and a debt to net assets ratio below 50 percent. If ratios for all three indicators (liquidity, performance, and long-term stability) met our criteria, we consider the agency's financial position to be positive. If criteria for one of the indicators were not met, we consider the agency's financial position to be mixed. If two indicators were not met or an agency did not provide their financial report for inclusion in our analysis, we believe the agency should be watched. Five of the agencies receiving \$1 million from the city in 2005 should be watched. (See Exhibit 6.)

Exhibit 6. Financial Condition of Agencies Receiving \$1 Million in 2005

Agency	Financial Condition
Children's Mercy Hospital	Mixed
Convention and Visitors Bureau of Greater Kansas City	Watch
Friends of the Zoo, Inc., of Kansas City, Missouri	Mixed
Housing and Economic Development Financial Corp.	Watch
Kansas City Area Transportation Authority	Positive
Kansas City Free Health Clinic	Positive
Metropolitan Ambulance Services Trust	Watch
Save, Inc. and Affiliates	Positive
Tax Increment Financing Commission of Kansas City, Mo.	Mixed
Truman Medical Center, Inc.	Watch
Union Station Kansas City, Inc.	Watch

Source: City Auditor's Office.

Children’s Mercy Hospital’s financial condition is mixed. Children’s Mercy Hospital’s performance indicators improved as unrestricted net assets increased and the agency had a positive operating margin in 2005. While the current ratio remained greater than 1, the hospital has less than three weeks of cash on hand. (See Exhibit 7.)

Exhibit 7. Children’s Mercy Hospital Financial Ratios

Measure	Audit Year Ending				
	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
Current Ratio	2.64	2.49	1.89	2.27	2.18
Days of Cash on Hand	28	46	39	36	19
Change in Unrestricted Net Assets	148,728,458 ³⁹	\$1,867,083	\$15,092,662	(\$103,739,358)	\$4,825,014
Operating Margin	63% ^{xx}	1%	4%	(24%)	1%
Debt to Net Assets	0.25	0.40	0.42	0.38	0.39

Sources: Children’s Mercy Hospital, June 30, 2002, June 30, 2003, June 30, 2004, and June 30, 2005, Audited Financial Statements, KPMG, LLP; and City Auditor’s Office calculations.

The Convention and Visitors Bureau of Greater Kansas City’s financial condition should be watched. The agency did not meet any of our indicators of liquidity, performance, or stability. (See Exhibit 8.)

Exhibit 8. Convention and Visitors Bureau of Greater Kansas City Financial Ratios

Measure	Audit Year Ending				
	4/30/01	4/30/02	4/30/03	12/31/03 ⁴⁰	12/31/04
Current Ratio	2.67	2.79	1.73	0.98	0.85
Days of Cash on Hand	23	27	15	36	18
Change in Unrestricted Net Assets	\$29,657	(\$192,498)	(\$260,019)	(\$609,340)	(\$80,846)
Operating Margin	0.4%	(3%)	(4%)	(13%)	(1%)
Debt to Net Assets	1.99	2.20	4.01	Negative ⁴¹	Negative ⁴¹

Sources: Convention and Visitors Bureau of Greater Kansas City, April 30, 2002, April 30, 2003, December 31, 2004 Audited Financial Statements, and December 31, 2003 Accountants Review Report and Financial Statements, House Park & Dobratz, P.C.; and City Auditor’s Office calculations.

The financial condition of Friends of the Zoo, Inc., of Kansas City, Missouri is mixed. The financial condition of the Friends of the Zoo, Inc., of Kansas City, Missouri, improved in 2004. While the agency’s liquidity and performance indicators were positive, the agency’s long-term stability indicator was at 50 percent. An agency’s debt ratio needs to

³⁹ Children’s Mercy Hospital, Inc.’s unrestricted net assets were restated in 2001 due to a cumulative effect of a change in accounting principle to record the investment in the net assets of the Children’s Mercy Hospital Foundation.

⁴⁰ For the eight months ending December 31, 2003.

⁴¹ The Convention and Visitors Bureau of Greater Kansas City reported negative net assets of \$266,595 as of December 31, 2003 and negative net assets of \$347,441 as of December 31, 2004.

be below 50 percent for the long-term stability indicator to be considered positive. (See Exhibit 9.)

Exhibit 9. Friends of the Zoo, Inc., of Kansas City, Missouri, Financial Ratios

Measure	Audit Year Ending				
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Current Ratio	5.78	2.81	5.70	5.01	5.87
Days of Cash on Hand	225	244	103	115	135
Change in Unrestricted Net Assets	\$11,795	(\$629,400)	(\$490,820)	(\$1,866,533)	\$67,895
Operating Margin	0.26%	(17%)	(3%)	(16%)	1%
Debt to Net Assets	0.41	0.70	0.59	0.74	0.50

Sources: Friends of the Zoo, Inc., of Kansas City, Missouri, December 31, 2001 and December 31, 2002 Audited Financial Statements, Deloitte & Touche; December 31, 2003 and December 31, 2004 Audited Financial Statements, BKD, LLP; and City Auditor's Office calculations.

Financial information for the Housing and Economic Development

Financial Corporation is not current. The court appointed receiver anticipates that the agency's audit will not be completed until the second quarter of 2006. Our prior work found the agency to be financially weak and dependent on city funds.⁴² (See Exhibit 10.)

Exhibit 10. Housing and Economic Development Financial Corporation Financial Ratios

Measure	Audit Year Ending				
	5/31/01	5/31/02	5/31/03	5/31/04	5/31/05
Current Ratio	4.06	1.83	1.09	0.63	Not Submitted
Days of Cash on Hand	254	197	286	77	
Change in Unrestricted Net Assets	\$639,338	\$40,613	\$124,356	\$11,085	
Operating Margin	8.76%	0.31%	0.76%	0.12%	
Debt to Net Assets	0.05	0.11	0.15	0.07	

Sources: Housing and Economic Development Financial Corporation, May 31, 2001 and May 31, 2002 Audited Financial Statements, McGladrey & Pullen, LLP; May 31, 2003 Audited Financial Statements, Cochran, Head & Co., P.C.; May 31, 2004 Audited Financial Statements, Mayer Hoffman McCann P.C.; and City Auditor's Office calculations.

The Kansas City Area Transportation Authority's financial condition is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 11.)

⁴² See *The City's Housing Program and the Role of the Housing and Economic Development Financial Corporation of Kansas City, Missouri* (August 2004).

Exhibit 11. Kansas City Area Transportation Authority Financial Ratios

Measure	Audit Year Ending				
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Current Ratio	1.43	1.42	1.63	1.51	1.93
Days of Cash on Hand	234	246	281	253	286
Change in Unrestricted Net Assets	\$2,480,420	(\$1,630,252)	\$10,327,361	\$3,861,489	\$10,864,745
Operating Margin	4%	(3%)	14%	6%	14%
Debt to Net Assets	0.26	0.23	0.21	0.17	0.13

Sources: Kansas City Area Transportation Authority, December 31, 2001, December 31, 2002, December 31, 2003, and December 31, 2004 Audited Financial Statements, Cochran, Head & Co., P.C.; and City Auditor's Office calculations.

Kansas City Free Health Clinic's financial condition is positive.

Liquidity, performance, and long-term stability indicators for the agency are all positive. (See Exhibit 12.)

Exhibit 12. Kansas City Free Health Clinic Financial Ratios

Measure	Audit Year Ending				
	3/31/01	3/31/02	3/31/03	3/31/04	3/31/05
Current Ratio	10.69	6.59	4.86	6.34	5.37
Days of Cash on Hand	76	53	54	42	36
Change in Unrestricted Net Assets	\$819,535	\$1,745,178	\$145,756	\$14,790	\$30,314
Operating Margin	15%	27%	3%	0.24%	0.48%
Debt to Net Assets	0.08	0.24	0.21	0.15	0.14

Sources: Kansas City Free Health Clinic, March 31, 2002 and March 31, 2003 Audited Financial Statements, Grant Thornton LLP, March 31, 2004 and March 31, 2005 Audited Financial Statements, BKD LLP and City Auditor's Office calculations.

Metropolitan Ambulance Services Trust's financial condition should be watched. MAST did not meet our criteria for liquidity or long-term stability. The agency has little cash on hand and its debt exceeds its net assets. (See Exhibit 13.)

Exhibit 13. Metropolitan Ambulance Services Trust Financial Ratios

Measure	Audit Year Ending				
	4/30/01	4/30/02	4/30/03	4/30/04	4/30/05
Current Ratio	2.12	1.64	1.19	1.67	2.09
Days of Cash on Hand	14	2	0.01	0.19	6
Change in Unrestricted Net Assets	(\$925,904)	(\$3,676,439)	(\$1,224,080)	\$2,370,676	\$20,601
Operating Margin	(2%)	(10%)	(5%)	7%	0.1%
Debt to Net Assets	1.33	1.80	1.83	1.25	1.08

Sources: Metropolitan Ambulance Services Trust, April 30, 2002, April 30, 2003, April 30, 2004 and April 30, 2005 Audited Financial Statements, KPMG, LLP; and City Auditor's Office calculations.

SAVE, Inc. and Affiliates' financial condition is positive. Liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 14.)

Exhibit 14. SAVE, Inc. and Affiliates Financial Ratios

Measure	Audit Year Ending				
	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05
Current Ratio	1.84	4.02	1.89	4.33	6.77
Days of Cash on Hand	20	53	35	33	33
Change in Unrestricted Net Assets	(\$150,721)	(\$125,391)	(\$109,337)	(\$135,103)	\$164,022
Operating Margin	(6%)	(6%)	(4%)	(4%)	5%
Debt to Net Assets	0.15	0.16	0.19	0.19	0.16

Sources: SAVE, Inc. and Affiliates, June 30, 2001, June 30, 2002, June 30, 2003, June 30, 2004, and June 30, 2005 Audited Financial Statements, Ifft & Co., P.A.; and City Auditor's Office calculations.

Tax Increment Financing Commission of Kansas City, Missouri's financial position is mixed. While liquidity and performance indicators are strong, the long-term stability indicator is weak as the agency has nearly eight times as much debt as net assets. (See Exhibit 15.)

Exhibit 15. Tax Increment Financing Commission of Kansas City, Missouri Financial Ratios

Measure	Audit Year Ending				
	4/30/01	4/30/02	4/30/03	4/30/04	4/30/05
Current Ratio	1.05	76.79	1.67	1.79	1.37
Days of Cash on Hand	96	69	179	170	187
Change in Unrestricted Net Assets	(\$351,306)	(\$5,680,617)	\$10,420,389	\$5,025,148	\$19,308,357
Operating Margin	(2%)	(19%)	27%	10%	30%
Debt to Net Assets	11.66	12.76	10.24	8.36	7.84

Sources: Tax Increment Financing Commission of Kansas City, Missouri, April 30, 2001, April 30, 2002, April 30, 2003, April 30, 2004, and April 30, 2005 Audited Financial Statements, Cochran, Head & Co. P.C.; and City Auditor's Office calculations.

Truman Medical Center's financial position should be watched.

Truman did not meet one of our liquidity indicators with only 20 days of cash on hand. Truman's long-term stability indicator is weak as debt is nearing the value of net assets. (See Exhibit 16.)

Exhibit 16. Truman Medical Center, Inc. Financial Ratios

Measure	Audit Year Ending				
	4/30/01	4/30/02	4/30/03	6/30/04 ⁴³	6/30/05
Current Ratio	2.09	2.39	2.32	2.09	2.11
Days of Cash on Hand	16	14	19	13	20
Change in Unrestricted Net Assets	(\$8,932,204)	\$218,589	\$1,610,112	\$1,129,969	\$523,687
Operating Margin	(4%)	0.1%	1%	0.3%	0.2%
Debt to Net Assets	0.36	0.60	0.87	0.91	0.92

Sources: Truman Medical Center, Inc., April 30, 2002, April 30, 2003, June 30, 2004 and June 30, 2005 Audited Financial Statements, BKD, LLP; and City Auditor's Office calculations.

Union Station Kansas City's financial condition should be watched.

Both measures of liquidity declined in 2004. While the performance indicators remained negative. (See Exhibit 17.)

Exhibit 17. Union Station Kansas City, Inc. Financial Ratios

Measure	Audit Year Ending				
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Current Ratio	2.39	1.66	1.61	1.52	0.67
Days of Cash on Hand	321	351	188	30	19
Change in Unrestricted Net Assets	(\$169,340)	(\$13,665,428)	(\$8,134,530)	(\$16,720,793)	(\$13,662,111)
Operating Margin	(0.5%)	(66%)	(35%)	(148%)	(121%)
Debt to Net Assets	0.35	0.22	0.15	0.15	0.22

Sources: Union Station Kansas City, Inc., December 31, 2001, December 31, 2002, December 31, 2003 and December 31, 2004 Audited Financial Statements, KPMG, LLP; and City Auditor's Office calculations.

Agency Accounting and Governance Practices

Outside agencies do the public's business, accept significant public funding, and are responsible to a range of stakeholders. To obtain a better understanding of the governance practices of these agencies, we conducted a survey. Most of our questions were related to the Sarbanes-Oxley Act⁴⁴ requirements for public companies. While the act does not apply to the city's outside agencies, the act's provisions are becoming the new standard for effective accounting and governance practices. Our final survey question concerned the level of compensation paid by the agency. All but one agency completed our survey. (See Exhibit 18.)

⁴³ The 2004 financial ratios for Truman Medical Center, Inc. are based on a 14-month period.

⁴⁴ In 2002, Congress passed the Sarbanes-Oxley Act. The act is intended to restore public confidence after recent accounting scandals.

All 45 responding agencies reported that their board of directors or a board committee reviewed the financial audit and other reports prepared by the agency's commercial auditors. Review of an agency's audit by the board or board committee should encourage communication and interaction between board/committee members and the commercial auditors and ensure that those outside of management review the audit.

All but one agency had at least one financially literate board/committee member. A board member with an accounting or financial background should be able to understand the audit and related reports. Organizations need knowledgeable boards that will uphold stakeholder interests.

Most agencies reported that board members are not employed by or doing business with the agency, and did not make loans to directors, officers, or employees. Independent board members provide objective oversight of agency operations and can challenge management on important issues.

All but two agencies reported having a conflict of interest policy. A conflict of interest policy offers protection in the event a conflict arises, can guide the independent decision-making of the board and staff, and permits consistent communications of the policy's provisions.

Twenty-five agencies reported they did not have a whistle blower policy. A whistle-blower policy may help an agency discover potential internal control and financial reporting frauds. Having a whistle-blower policy demonstrates to an agency's stakeholders that it is taking internal controls seriously, encourages open communication of concerns, and can mitigate risks that could ruin its reputation.

The level of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies. The average annual compensation paid to the three most highly compensated individuals by an agency ranged from over \$1 million to non-paid positions. Disclosure of compensation can provide stakeholders with a clearer picture of how agency resources are used.

Review of Audits of Outside Agencies

Exhibit 18. Financial Oversight Questionnaire Responses

Agency	Board reviews audit	Board member with financial or accounting background	Board members employed by or doing business with agency	Agency loans to directors, officers, or employees	Conflict of interest policy	Whistleblower policy	Average compensation of three most highly paid
American Jazz Museum, Inc.	Yes	Yes	No	No	Yes	No	\$ 83,136
Black Economic Union of Greater Kansas City	Yes	Yes	No	No	Yes	Yes	74,994
Bridging the Gap, Inc.	Yes	Yes	No	Yes	No	No	60,427
Cabot Westside Health Center	Yes	Yes	No	No	Yes	Yes	140,063
Children's Mercy Hospital	Yes	Yes	No	No	Yes	Yes	1,194,222
Community Assistance Council, Inc.	Yes	Yes	No	No	Yes	No	21,429
Community Development Corporation of Kansas City	Yes	Yes	Yes	No	Yes	No	72,250 ⁴⁵
Community LINC, Inc.	Yes	Yes	No	No	Yes	Yes	53,127
Community Movement for Urban Progress, Inc.	Yes	Yes	No	No	Yes	No	56,322
Convention and Visitors Bureau of Greater Kansas City	Yes	Yes	Yes	No	Yes	No	147,007
Economic Development Corporation of Kansas City, Mo.	Yes	Yes	No	No	Yes	No	125,195
Friends of the Zoo, Inc., of Kansas City, Missouri	Yes	Yes	Yes	No	Yes	No	104,875
Good Samaritan Project, Inc.	Yes	Yes	No	No	Yes	Yes	55,753
Greater Kansas City Housing Information Center	Yes	Yes	No	No	Yes	No	N/A ⁴⁶
Guadalupe Center, Inc.	Yes	Yes	No	No	Yes	No	65,611
Heartland Aids Resource Council	Yes	Yes	No	No	No	No	42,873 ⁴⁷
Hispanic Economic Development Corporation	Yes	Yes	No	No	Yes	No	45,000
Hope House, Inc.	Yes	Yes	No	No	Yes	No	85,385

⁴⁵ Average based on the compensation of two employees.

⁴⁶ Agency does not pay employees.

⁴⁷ Compensation information provided for only one employee.

Agency	Board reviews audit	Board member with financial or accounting background	Board members employed by or doing business with agency	Agency loans to directors, officers, or employees	Conflict of interest policy	Whistleblower policy	Average compensation of three most highly paid
Housing and Economic Development Financial Corporation		Questionnaire not returned					\$ 109,727
Kansas City Area Transportation Authority	Yes	No	No	No	Yes	No	119,878
Kansas City Free Health Clinic	Yes	Yes	No	No	Yes	Yes	118,053
Kansas City Neighborhood Alliance	Yes	Yes	No	No	Yes	No	97,473
KCMC Child Development Corporation	Yes	Yes	No	No	Yes	Yes	N/A ⁴⁸
Legal Aid of Western Missouri	Yes	Yes	Yes	No	Yes	No	104,067
Liberty Memorial Association	Yes	Yes	No	No	Yes	No	92,086
Mattie Rhodes Counseling and Art Center	Yes	Yes	No	No	Yes	Yes	57,767
Metropolitan Ambulance Services Trust	Yes	Yes	No	No	Yes	Yes	112,003
Metropolitan Lutheran Ministry	Yes	Yes	No	No	Yes	Yes	49,167
Minority Contractors Association of Greater Kansas City	Yes	Yes	No	No	Yes	No	43,850 ⁴⁹
Neighborhood Housing Services of Kansas City, Inc.	Yes	Yes	No	No	Yes	No	58,642
Newhouse, Inc.	Yes	Yes	No	No	Yes	No	60,728
Northland Neighborhoods, Inc.	Yes	Yes	No	No	Yes	Yes	61,667
Old Northeast, Inc.	Yes	Yes	Yes	No	No	No	39,383
Operation Breakthrough, Inc.	Yes	Yes	No	No	Yes	Yes	55,000
Planned Industrial Expansion Authority of Kansas City, Mo.	Yes	Yes	No	No	Yes	No	60,000 ⁵⁰
Rose Brooks Center, Inc.	Yes	Yes	No	No	Yes	Yes	84,105

⁴⁸ Agency closed in January 2005, filed Chapter 11 bankruptcy.

⁴⁹ Average based on compensation of two employees.

⁵⁰ Compensation information provided for only one employee.

Review of Audits of Outside Agencies

Agency	Board reviews audit	Board member with financial or accounting background	Board members employed by or doing business with agency	Agency loans to directors, officers, or employees	Conflict of interest policy	Whistleblower policy	Average compensation of three most highly paid
Samuel U. Rodgers Health Center, Inc.	Yes	Yes	No	No	Yes	Yes	\$ 159,257
SAVE, Inc.	Yes	Yes	No	No	Yes	Yes	73,543
Swope Community Builders	Yes	Yes	No	No	Yes	Yes	127,387
Swope Health Services	Yes	Yes	No	No	Yes	Yes	275,007
Tax Increment Financing Commission of Kansas City, Mo.	Yes	Yes	No	No	Yes	No	N/A ⁵¹
Truman Medical Center, Inc.	Yes	Yes	Yes	No	Yes	Yes	388,626
Twelfth Street Heritage Development Corporation	Yes	Yes	No	No	Yes	No	56,797
Union Station Kansas City, Inc.	Yes	Yes	No	No	Yes	No	129,667
United Services Community Action Agency	Yes	Yes	No	No	Yes	Yes	67,364
Westside Housing Organization, Inc.	Yes	Yes	No	No	Yes	Yes	58,333

Sources: Agencies' Financial Oversight Questionnaire Responses and Form 990s.

⁵¹ Agency has no employees.

Dependence on City Funding Varies

Outside agencies' level of dependence on city funding varied among agencies. Based on the most recent averages, city support ranged from 1 to 92 percent of agency revenues. City funding comprised less than ten percent of agency funding for fourteen agencies, but more than one half of agency funding for nine agencies. Diverse funding sources can make agencies less dependent on city support. (See Exhibit 19.)

Exhibit 19. Percentage of City-provided Support to Total Agency Revenue

Agency	3-year average
Housing and Economic Development Financial Corporation	92% ⁵²
Convention and Visitors Bureau of Greater Kansas City	85%
Minority Contractors Association of Greater Kansas City	85%
Hispanic Economic Development Corporation	77%
Heartland Aids Resource Council	71% ⁵²
Tax Increment Financing Commission of Kansas City, Missouri	64%
Northland Neighborhoods, Inc.	58%
Black Economic Union of Greater Kansas City	56%
Greater Kansas City Housing Information Center	51%
Good Samaritan Project, Inc.	49%
Kansas City Area Transportation Authority	48%
Community Assistance Council, Inc.	44%
Twelfth Street Heritage Development Corporation	43% ⁵²
Bridging the Gap, Inc.	39%
SAVE, Inc. and Affiliates	33%
American Jazz Museum, Inc.	32%
Metropolitan Ambulance Services Trust	30%
Friends of the Zoo, Inc., of Kansas City, Missouri	29%
Economic Development Corporation of Kansas City, Missouri	28%
Liberty Memorial Association	27% ⁵³
Old Northeast, Inc.	25%
Community LINC, Inc.	21%
Kansas City Free Health Clinic	19%
Westside Housing Organization, Inc. and Subsidiaries	19%
Community Development Corporation of Kansas City	18%
Neighborhood Housing Services of Kansas City, Inc.	16%
Planned Industrial Expansion Authority of Kansas City, Mo.	16%
Community Movement for Urban Progress, Inc.	15% ⁵²
Newhouse, Inc.	12%
Legal Aid of Western Missouri	11%
Mattie Rhodes Counseling and Art Center	10%
Metropolitan Lutheran Ministry	10%
Guadalupe Center, Inc.	8%
Union Station Kansas City, Inc.	8%

⁵² Percentages calculated for two years because most recent financial statement not received.

⁵³ Percentage calculated for one year because prior year statement not received.

Review of Audits of Outside Agencies

Kansas City Neighborhood Alliance	7%
Cabot Westside Health Center	6%
Swope Community Builders and Subsidiaries	6%
Truman Medical Center, Inc.	6%
Rose Brooks Center, Inc.	5%
Samuel U. Rodgers Health Center, Inc.	5%
Operation Breakthrough, Inc.	4%
Hope House, Inc.	3%
United Services Community Action Agency	3%
Swope Health Services	2%
KCMC Child Development Corporation	1% ⁵⁴
Children's Mercy Hospital	1%

Source: City's financial management system (PeopleSoft), agency financial statements, and City Auditor's Office calculations.

⁵⁴ Percentages calculated for two years because most recent financial statement not received.

Appendix A

Summary of Reports Reviewed and Findings

Below is a summary of the reports we reviewed and the findings indicated by the agencies' commercial auditors.

Summary of Reports Reviewed and Findings

Agency	Audit Year Ending	Type of Opinion	Material Weakness ⁵⁵	Reportable Condition ⁵⁵	Non-Compliance ⁵⁶
American Jazz Museum, Inc.	4/30/2005	Unqualified	No	Yes	Yes
Black Economic Union of Greater Kansas City	12/31/2003	Qualified	Yes	Yes	Yes
Black Economic Union of Greater Kansas City	12/31/2004	Unqualified	No	No	Yes
Bridging the Gap, Inc.	4/30/2005	Unqualified	No	No	N/P
Cabot Westside Health Center	12/31/2004	Unqualified	N/P	N/P	N/P
Children's Mercy Hospital	6/30/2004	Unqualified	No	Yes	Yes
Children's Mercy Hospital	6/30/2005	Unqualified	N/P	N/P	N/P
Community Assistance Council, Inc.	12/31/2004	Unqualified	N/P	N/P	N/P
Community Development Corporation of Kansas City	2/28/2005	Qualified	No	No	No
Community LINC, Inc.	12/31/2004	Unqualified	No	No	No
Convention and Visitors Bureau of Greater Kansas City	12/31/2004	Unqualified	N/P	N/P	N/P
Economic Development Corporation of Kansas City, Mo.	4/30/2005	Unqualified	No	No	No
Friends of the Zoo, Inc., of Kansas City, Missouri	12/31/2003	Unqualified	No	No	N/P
Friends of the Zoo, Inc., of Kansas City, Missouri	12/31/2004	Unqualified	No	No	N/P
Good Samaritan Project, Inc.	12/31/2004	Unqualified	No	Yes	No
Greater Kansas City Housing Information Center	12/31/2004	Unqualified	No	No	No
Guadalupe Center, Inc.	12/31/2004	Unqualified	No	No	No
Hispanic Economic Development Corporation	5/31/2005	Unqualified	No	No	No
Hope House, Inc.	9/30/2004	Unqualified	No	No	No
Housing and Economic Development Financial Corp.	5/31/2004	Unqualified	Yes	Yes	Yes
Kansas City Area Transportation Authority	12/31/2004	Unqualified	No	No	No
Kansas City Free Health Clinic	3/31/2005	Unqualified	No	Yes	No
Kansas City Neighborhood Alliance	12/31/2004	Unqualified	No	No	No
KCMC Child Development Corporation	6/30/2004	Qualified	Yes	Yes	Yes
Legal Aid of Western Missouri	12/31/2004	Unqualified	No	No	No
Liberty Memorial Association	12/31/2004	Unqualified	No	No	N/P
Mattie Rhodes Counseling and Art Center	12/31/2004	Unqualified	N/P	N/P	N/P

⁵⁵ N/P indicates an internal control report was not prepared.

⁵⁶ N/P indicates a compliance report was not prepared. Only agencies receiving at least \$500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Review of Audits of Outside Agencies

Agency	Audit Year Ending	Type of Opinion	Material Weakness⁵⁷	Reportable Condition⁵⁷	Non-Compliance⁵⁸
Metropolitan Ambulance Services Trust	4/30/2005	Unqualified	No	Yes	N/P
Metropolitan Lutheran Ministry	6/30/2004	Unqualified	No	Yes	Yes
Metropolitan Lutheran Ministry	6/30/2005	Unqualified	No	Yes	No
Minority Contractors Association of Greater Kansas City	5/31/2004	Unqualified	No	No	No
Minority Contractors Association of Greater Kansas City	5/31/2005	Unqualified	N/P	N/P	N/P
Neighborhood Housing Services of Kansas City, Inc.	9/30/2004	Unqualified	No	No	N/P
Newhouse, Inc.	12/31/2004	Unqualified	No	No	No
Northland Neighborhoods, Inc.	5/31/2005	Unqualified	No	No	No
Old Northeast, Inc.	12/31/2004	Unqualified	N/P	N/P	N/P
Operation Breakthrough, Inc.	10/31/2004	Unqualified	No	No	No
Planned Industrial Expansion Authority of Kansas City, Mo.	4/30/2005	Unqualified	No	No	No
Rose Brooks Center, Inc.	6/30/2005	Unqualified	No	No	No
Samuel U. Rodgers Health Center, Inc.	9/30/2004	Unqualified	No	Yes	Yes
SAVE, Inc. and Affiliates	6/30/2005	Unqualified	No	No	No
Swope Community Builders and Subsidiaries	12/31/2004	Unqualified	Yes	Yes	Yes
Swope Health Services	12/31/2004	Unqualified	N/P	N/P	N/P
Tax Increment Financing Commission of Kansas City, Mo.	4/30/2005	Unqualified	No	Yes	No
Truman Medical Center, Inc.	6/30/2005	Unqualified	No	No	No
Twelfth Street Heritage Development Corporation	5/31/2004	Unqualified	No	No	No
Union Station Kansas City, Inc.	12/31/2004	Unqualified	N/P	N/P	N/P
United Services Community Action Agency	9/30/2004	Unqualified	No	No	No
Westside Housing Organization, Inc. and Subsidiaries	5/31/2005	Unqualified	N/P	N/P	N/P

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

⁵⁷ N/P indicates an internal control report was not prepared.

⁵⁸ N/P indicates a compliance report was not prepared. Only agencies receiving at least \$500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Appendix B

Definitions of Deficiencies

Qualified Opinions

Auditors issue a qualified opinion when they see departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. Except for the effects of the matters to which the qualification relates, the financial statements fairly present, in all material respects, the entity's financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

Going Concern

The entity may not be able to meet obligations as they become due without the disposal of assets outside the normal course of business, restructuring debt, or revising operations due to external forces. There is substantial doubt about the entity's ability to continue as a going concern for a year or less beyond the date of the financial statements being audited.

Material Weaknesses

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.

Reportable Conditions

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.

Noncompliance

Noncompliance occurs when an entity does not execute transactions in conformity with laws, regulations, provisions of contracts, awards, or grant agreements, or other compliance requirements. Non-municipal agencies that expend federal awards of at least \$500,000 in direct or pass through funding in a year, fall under the reporting requirements of OMB A-133, which requires an audit, including an examination of compliance. Auditors for agencies not falling under OMB A-133 requirements may evaluate compliance as part of their examination of internal controls.

Appendix C

Financial Analysis Methodology

Not everyone calculates ratios using the same definitions. The definitions used for our analysis came from *Financial Management for Public, Health and Not-for-Profit Organizations* by Steven A. Finkler.⁵⁹

Liquidity Indicators

Liquidity ratios assess short-term risks. They focus on whether an organization has enough cash and liquid resources to meet near term obligations. We calculated two liquidity ratios, the current ratio and the days of cash on hand.

Current Ratio. The current ratio is one of the most common measures of liquidity. It compares an entity's current assets (those assets that become cash or are used up within a year) to current liabilities (liabilities due within a year). This ratio measures an organization's ability to meet obligations as they become due. If the current ratio is too low, an organization may not be able to meet its obligations. If the ratio is very high, resources might be more productively employed in other ways.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Days of Cash on Hand. Days of cash on hand is another widely used liquidity ratio. It measures how long an organization could meet its daily expenses using just the resources on hand. It compares cash and near cash assets to daily operating expenses. Bad debt and depreciation are excluded from operating expenses because they do not require a cash outflow. Too low a ratio suggests that an agency couldn't meet its obligations if something happened that cut off future cash inflows. Too high a ratio suggests that cash could be better utilized to provide resources or services.

$$\text{Days of Cash on Hand} = \frac{\text{Cash} + \text{Marketable Securities}}{(\text{Operating Expenses} - \text{Bad Debt} - \text{Depreciation})/365}$$

⁵⁹ Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, New Jersey: Prentice Hall, 2001).

Performance Indicators

While public service organizations do not provide services primarily to make a profit, organizations need to earn income to be financially healthy, to improve and expand services, and to meet future challenges. Financial resources are a means to an end. Without adequate financial resources, an organization generally can not achieve its mission. To measure financial performance, we examine two indicators, the change in unrestricted net assets and the operating margin.

Change in Unrestricted Net Assets. Not-for-profits and governmental organizations use the term net assets. Net assets, owners' equity, and fund balance consist of amounts that have been contributed to an organization and profits or surpluses that have been earned and retained over time. These terms represent the residual amount when liabilities are subtracted from assets. Net assets may be unrestricted, temporarily restricted, and permanently restricted. Increases in net assets are generally caused by revenues and decreases are generally caused by increasing expenses.

Operating Margin. Operating margin generally measures the percent of earnings (operating revenue less operating expenses) generated for each dollar of operating revenue received. For not-for-profit entities, this ratio compares the change in unrestricted net assets with total unrestricted revenues and other support. A positive percentage would indicate that the organization earned so many cents for every dollar of revenue. A negative ratio indicates an entity's operating expenses are greater than its operating revenues and the entity is consuming operating reserves.

$$\text{Operating Margin} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues and Other Support}}$$

Long Term Stability Indicators

While liquidity ratios are used to assess an organization's ability to meet short term obligations, debt to net assets assesses the long term viability of an agency.

Debt to Net Assets. The debt to net asset ratio measures the extent to which an organization supports its activities by using debt. The ratio calculates the amount of debt used to finance the acquisition of its assets. The ratio is calculated by dividing an agency's total debt by its net assets. Net assets are a measure of equity. Debt ratios can be calculated using a range of different definitions for debt. We use total liabilities. Debt allows agencies to

undertake programs and enhance services that they otherwise could not do. Excessive debt levels risk the continued existence of an agency.

$$\text{Debt to Net Assets} = \frac{\text{Total Debt}}{\text{Total Net Assets}}$$

Some agencies have negative net assets. Net assets are negative when an agency's liabilities are greater than their total assets. We did not calculate the debt to net assets ratio when an agency's net assets were negative