

March 9, 2023

The Honorable Mayor and  
Members of the City Council  
**City of Columbia, Missouri**

We are pleased to present this report related to our audit of the financial statements of City of Columbia, Missouri (City) as of and for the year ended September 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the Mayor, City Council Members, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Consistent with the requirement to promote effective communication between the auditor and those charged with governance, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

### **Our Responsibilities With Regard to the Financial Statement and Compliance Audit**

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated September 22, 2022. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated September 22, 2022 regarding the planned scope and timing of our audit and have discussed with you our identification of significant risks of material misstatement. We made no significant changes to the scope or timing of our procedures.

### **Accounting Policies and Practices**

Preferability of Accounting Policies and Practices - Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. During the year ended September 30, 2022, management implemented Governmental Accounting Standards Board Statement 87, *Leases*, which resulted in the reporting of lease receivables in the total amount of \$9,911,069 and deferred inflows related to leases of \$9,879,126.

Significant Accounting Policies - We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant or Unusual Transactions - We did not identify any significant or unusual transactions.

Management's Judgments and Accounting Estimates - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's September 30, 2022 financial statements.

- *Estimated Claims Liabilities:* The City has estimated claims liabilities related to health insurance and worker's compensation. In many cases, these estimates are based on information from third parties such as actuaries, lag reports from insurance providers and reports from in-house legal counsel. As a basis for our conclusions, we obtained the reports utilized by the City to develop these estimates. We obtained an understanding of the methods and assumptions used to determine the amounts and performed procedures to test the accuracy and completeness of the information used to develop the estimates.
- *Allowances for Uncollectible Receivables:* The allowance for doubtful accounts is set by management based on knowledge of the customer base and past collection history. We reviewed management's estimate for the allowance for doubtful accounts and reviewed the reasonableness and the process used to calculate the allowance.
- *Net Pension Liability:* The City contracts with external actuaries to develop estimates for the net pension liabilities, as well as the related deferred outflows and deferred inflows of resources for each of the City's plans. The valuations performed by the external actuaries incorporate a number of assumptions, including among others, a rate of return on investments, projected salary increases, mortality rates, assumptions related to increases in benefits, and the discount rate. We performed procedures to test the completeness and accuracy of information provided to the actuaries as a basis for their calculations. We also obtained an understanding of the methods and assumptions used by the actuaries, evaluating them for compliance with generally accepted accounting principles and consistency from year to year.
- *Net Other Post-Employment Benefit (OPEB) Liability:* The City contracts with an external actuary to develop an estimate for the Net OPEB liability, as well as the related deferred outflows and deferred inflows of resources. The valuations performed by the external actuary incorporate a number of assumptions, including among others, projected salary increases, mortality rates, assumptions related to health care trend rates, and the discount rate. We performed procedures to test the completeness and accuracy of information provided to the actuary as a basis for their calculations. We also obtained an understanding of the methods and assumptions used by the actuary, evaluating them for compliance with generally accepted accounting principles and consistency from year to year.
- *Landfill Liability:* The City calculates the landfill liability based on inflation adjusted total costs provided by the Missouri Department of Natural resources, compared to the percentage of the landfill that has been utilized. As a basis for our conclusions, we obtained the reports utilized by the City to develop the estimate, obtained an understanding of the methods and assumptions used to determine the amounts, and performed procedures to test the accuracy and completeness of the information used to develop the liability.

- *Fair Value of Investments:* The City reports investments at fair value. Fair values are obtained from the various banks holding the City's investments. We have reviewed the investment valuation methodologies and as a basis for our conclusions, we selected a sample of investments held at year-end and obtained independent third party estimates of fair value.

### **Audit Adjustments**

Audit adjustments proposed by us and recorded by management are summarized below:

- Entries to reduce accounts receivable for duplicated amounts totaling \$514,334 in the general fund
- Entries to record grants receivables in the amount of \$108,986 in the capital project fund and \$126,291 in the airport fund
- Entry to reduce cash held by a fiscal agent in the amount of \$300,000 in the water/electric fund
- Entry to increase cash related to the bank reconciliation process in the amount of \$191,999 in the water/electric fund
- Entry to reduce leases receivable in the parking fund by \$333,499
- Entry to reduce leases receivable in the general fund by \$159,777

### **Uncorrected Misstatements**

During the course of our audit, we accumulated unrecorded misstatements that were determined by management to be immaterial, both individually and in the aggregate, to statements of net position, statements of revenues, expenses and changes in net position, statement of cash flows and to the related financial statement disclosures.

The following is a summary of the unrecorded misstatement noted in the Water/Electric Fund:

- Entry to adjust beginning net position related to an inventory balance that were previously reported in the amount of \$1,772,095

### **Management Representations**

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles and also includes the more significant and specific oral representations made by officers and employees during the course of the audit. The letter is intended to reduce the possibility of misunderstandings between us and the City and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

### **Other Information included in Annual Reports**

Our responsibility for other information included in annual reports is to read the information and consider whether its content or the manner of its presentation is materially inconsistent with the financial information covered by our auditor's report, whether it contains a material misstatement of fact or whether the other information is otherwise misleading. We read the City's Introductory and Statistical sections and did not identify material inconsistencies with the audited financial statements.

### **Observations about the Audit Process**

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit year; we encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements; we are not aware of any consultations management had with other accountants about accounting or auditing matters; no significant issues arising from the audit were discussed or the subject of correspondence with management; we did not encounter any difficulties in dealing with management relating to the performance of the audit; and we did not encounter any significant difficult or contentious matters that required consultation outside the engagement team.

### **Internal Control Deficiencies**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control described below that we consider to be significant deficiencies:

- As noted in the audit adjustment section above, multiple adjustments were recorded during the audit process related to accounts receivable balances. In addition to the impacts noted above on the financial audit, adjustments to accounts receivable balances that are associated with grant funding also impact the Schedule of Expenditures of Federal Awards. We recommend that finance work with each department at the City to ensure that there is a uniform process in place across all city departments to track and properly record receivable balances at year end.
- Management's general ledger activity captures most of the information needed to compile the City's Schedule of Expenditures of Federal Awards (SEFA). However, during testing of the SEFA, we noted that the City expended \$235,277 during fiscal year 2022 that was not initially included on the schedule. The City also initially incorrectly identified certain assistance listing numbers reported on the SEFA. We recommend management and staff complete annual training related to single audits and the preparation of the SEFA. Additionally, we recommend the City implement a process to review the SEFA.

## **Other Matters**

This letter includes other comments and suggestions with respect to matters that came to our attention in connection with our audit of the City's financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the City's practices and procedures.

### Cybersecurity Risk

Effective cybersecurity risk management has never been more important than in today's environment. Boards of directors, owners and executive management (the governance team) face an enormous challenge: to oversee how the organization manages cybersecurity risk.

An effective cybersecurity risk management program provides reasonable, but not absolute, assurance that material breaches are prevented or detected, and mitigated in a timely manner. The combined effects of an organization's dependency on IT, the complexity of IT networks and business applications, extensive reliance on third parties and human nature (i.e., susceptibility to social engineering) are only likely to increase the need for effective cybersecurity risk management programs. Elements of an effective cyber risk management program should include:

- A comprehensive and documented risk assessment. Such assessment should not fall solely on the IT team. It is a governance and management challenge that should involve executive management and others charged with governance.
- Control assessments should include, at a minimum, an information technology systems general controls review, social engineering testing and, potentially, internal and/or external penetration testing.
- A vulnerability assessment will identify potential network vulnerabilities that can leave a company open to significant risk. Using automated scanners, this will help the organization identify and resolve vulnerabilities before they are exploited by cybercriminals.

The City has regular IT assessments and vulnerability assessments, which we believe is imperative in today's environment. We encourage executive management and the governance team to continue to be intimately involved with the review of summary reports.

### Comprehensive Policy and Procedure Review

Given the broad and deep scope of your operations, you should consider completing a comprehensive evaluation of the adequacy and effectiveness of the entity's internal financial policies, processes and procedures, including a comparison to best practices among organizations the same size.

For entities that have experienced budget cuts in the finance area or those that have experienced turnover, a periodic review of controls is imperative. Even if your finance team has been stable over the years, we remind you that even the best design of controls is only as good as the people who carry out and execute such controls.

Financial policies, procedures and processes are a key element of sound fiscal administration. When policies are effective, they can preserve or enhance the fiscal health and wealth of the organization and create efficiencies for staff members.

This comprehensive evaluation could include:

1. Evaluation of existing controls
2. Identification of financial policies that could lead to vulnerability to fraud and/or abuse
3. For those identified weaknesses and risks, recommendations for improvements

#### AGHUniversity Resources

As part of AGH's ongoing commitment to serve as a trusted advisor, we offer these resources as a key part of the additional value AGH provides beyond the engagement itself:

- AGHUniversity.com - a full schedule of complimentary CPE or current and relevant topics and other updates to clients throughout the year. Free registration and webinars are available for the City's staff and council members at aghuniversity.com. A sample of recent topics include Lease accounting: Become a destination employer: 5 factors you must get right, 6 steps to improving employee soft skills – Along with productivity and profitability, Measuring what matters in your 401(k) plan for recruitment, retention and reward, Cybersecurity: Protect your organization from cybercriminals and 10 steps to prepare your business for a sale.
- AGH alerts and newsletters - this includes periodic mailings or emails to alert clients to new accounting standards or regulatory changes.

#### **Closing**

We will be pleased to respond to any questions you have about this report or set up an introductory meeting to discuss the other recommendations at no charge. We appreciate the opportunity to continue to be of service to the City of Columbia, Missouri.

*Allen, Gibbs & Houlik, L.L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

Overland Park, KS  
March 9, 2023