

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 basic financial statements of the City of Columbia, Missouri (the City) as of and for the year ended September 30, 2024. 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.

Auditing Standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, 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 and related compliance reporting process.

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.

### **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 13, 2024. 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 13, 2024 regarding the planned scope and timing of our audit and identified significant risks. 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. The City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

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 Unusual Transactions - We did not identify any significant 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 summarizes the significant accounting estimates reflected in the City's September 30, 2024 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 and Uncorrected Misstatements**

Audit adjustments made to the original trial balance presented to us to begin our audit are summarized below. We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

- An entry was made to correct the interest receivable associated with a lease resulting in an increase in assets and interest income in the amount of \$87,369 within Non-Major Enterprise Funds.
- An entry was made to correct capital assets recorded resulting in a decrease within the Water & Electric Utility opinion unit of \$121,403, \$204,888 and \$83,485 of assets, revenue and expenses, respectively.
- An entry was made to correct capital assets recorded within the Sanitary Sewer Utility opinion unit resulting in a decrease in assets of \$17,425, a decrease in revenue of \$5,179 and an increase in expense recorded of \$12,246.

### **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 and difficult or contentious matters that required consultation outside the engagement team.

## **Shared Responsibilities for Independence**

Independence is a **joint responsibility** and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA and *Government Accountability Office* (GAO) independence rules. For Allen, Gibbs & Houlik, L.C. (AGH) to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and AGH each play an important role.

## **Our Responsibilities**

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. AGH is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

## **The City's Responsibilities**

- Timely inform AGH, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, officers, or persons in financial reporting and compliance oversight roles.
  - Changes in the reporting entity impacting affiliates such as partnerships, related entities, investments, joint ventures, component units, jointly governed organizations.
- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the City and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with AGH.
- Not entering into arrangements of nonaudit services resulting in AGH being involved in making management decisions on behalf of the City.
- Not entering into relationships resulting in AGH, AGH covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the City.

## **Other Matters**

Electronic Fund and Wire Transfers - The risk of loss or fraud around the electronic transfer of cash is significant and has grown exponentially in recent years. Therefore, we suggest the City evaluate current controls around these types of transactions to minimize risks associated with electronic payments.

In general, the City's processes and controls should:

- Maintain dual authorizations over electronic payments
- Develop a formal written policy for generating, approving and executing electronic payments to ensure that all transfers are properly performed, routed, and accounted for. The lack of a formal written agreement can lead to improper transaction recording, whether by accident or fraud, that can result in significant loss to the City.
- Utilize written agreements with vendors that specifically communicate wire procedures, account numbers, multi-factor authentication requirements, change or update requirements, etc. These

agreements should be strictly followed and extremely difficult to change to minimize the risk of fraudulent activity around electronic payments. Your bank or insurance company many times will have best practices and templates that align with the banking procedures or insurance policies already in place.

Cybersecurity - Effective cybersecurity risk management continues to be more important than ever in today's environment. Those charged with governance and executive management (the governance team) face an enormous challenge: to oversee how the City manages cybersecurity risk.

An effective cybersecurity risk management program includes assessments of your comprehensive risk, controls and vulnerabilities to provide 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.

As a best practice, we encourage executive management to be intimately involved with the risk management program and to share the results with the governance team.

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 carryout 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 Company's staff and board 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.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

Overland Park, KS  
March 6, 2025