

AGENDA REPORT

DATE December 21, 2004

ITEM Audit Report, FY 2003-2004

INITIATED BY Fiscal Services Department

ACTION REQUESTED Accept Comprehensive Annual Financial Report with Audit Report, and Responses to the Audit Management Letter Recommendations

PREPARED BY Judy D. Hardinger, Accounting Technician Sr.

REVIEWED AND APPROVED BY Coleen Balzarini, Fiscal Services Director

RECOMMENDATION:

Staff recommends the City Commission accept the FY 2003-2004 Comprehensive Annual Financial Report (CAFR) and approve the responses to the auditor's recommendations contained in the FY 2003-2004 Audit Management Letter.

MOTION:

I move the City Commission accept the FY 2003-2004 Comprehensive Annual Financial Report and Independent Auditor's report as presented as well as approve the responses to the Audit Management Letter recommendations as presented, and authorize staff to submit the responses to the State of Montana, Department of Administration and other government agencies as necessary.

SYNOPSIS:

Junkermier, Clark, Campanella, Stevens, P.C., Certified Public Accountants, conducted the City's FY 2003-2004 Annual Audit. Based on the Independent Auditor's report, the general purpose financial statements present fairly, in all material respects, the financial position of the City of Great Falls, Montana, as of June 30, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Section 2-7-515, MCA, requires the City Commission notify the Montana Department of Administration within 30 days of receipt of the audit report as to what action is planned on any deficiencies and recommendations noted by the independent auditor. If accepted by the Commission, the attached responses will be forwarded to the state in compliance with this requirement.

BACKGROUND:

The City's Audit Committee received a copy of the FY 2003-2004 CAFR, the Independent Auditor's report, responses to the GFOA's (Government Finance Officers Association) comments on the FY 2002-2003 CAFR and a brief summary of the FY 2003-2004 audit on December 15, 2004. The Audit Committee recommends the City Commission accept the CAFR and annual Independent Auditor's report.

Along with the FY 2003-2004 Audit Report, the City's auditors (Junkermier, Clark, Campanella, Stevens, P.C., Certified Public Accountants) issued a separate Audit Management Letter. The letter comments on internal control recommendations related to the operations of the City that **could** adversely affect the City's ability to record, process, summarize, and report financial data. The attached document describes the auditor's FY 2003-2004 recommendations, status of prior year recommendations, and the City's response/disposition to each of the recommendations.

The FY 2003-2004 CAFR will be submitted to the Government Finance Officers Association's (GFOA) Certificate of Achievement Program for review. The prior year's CAFR was submitted and subsequently awarded the Certificate of Achievement for Excellence in Financial Reporting. The City has received this certification every year since FY 1993-1994. It is anticipated the FY 2003-2004 CAFR will meet all requirements to receive the certification as well, since all comments and recommendations made by GFOA for improvement of presentation were implemented in the FY 2003-2004 CAFR.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

TAXES RECEIVABLES AND DEFERRED REVENUES

We noted that taxes receivables and deferred revenues at June 30, 2004 were calculated differently than they have been calculated in prior years. It appears the reason for the change in calculation is due to (1) new information being brought to City personnel's attention and (2) misunderstanding of how such receivables and deferred revenues should be calculated especially since this calculation is only done once a year.

Recommendation: Since the City receives reports used to calculate taxes receivable and deferred revenue from Cascade County on a monthly basis, we would recommend that an adjustment be calculated and posted monthly in order for personnel to gain a better understanding of these areas in order to make the calculations accurately and consistently.

Response/Disposition: Procedures will be set in place to reconcile timing differences between the Cascade County Reports for Real Property Taxes and the City's Taxes Receivable/Deferred Revenue on a monthly basis.

PRIOR YEAR COMMENTS AND THEIR CURRENT STATUS

CASH

During the years ended June 30, 2002 and 2003, the balance at Wells Fargo was in excess of FDIC insurance. In addition, this uninsured balance was not collateralized. We recommended that all deposited funds be insured or collateralized to minimize credit risk

Current Status: At June 30, 2004, there were no balances in excess of FDIC insurance.

INVESTMENTS

We noted that proper review procedures are not in place for year-end mark-to-market adjustments. We recommended the City establish necessary review procedures for year-end mark-to-market adjustments.

Current Status: Year-end mark-to-market adjustments were made properly during the year ended June 30, 2004

CAPITAL ASSETS

We noted that the City's established controls and procedures for maintaining the fixed asset schedule and for recording fixed asset disposals in the general ledger are not being followed. We recommended the City review its policy on fixed assets and make the necessary revisions to it to establish the proper controls for fixed assets. Personnel should be trained on how to properly maintain the fixed asset schedule and to accurately record disposals. In addition, we recommended that appropriate City personnel should review all work throughout the year.

Current Status: The capital asset additions and disposals were accurately recorded during the year ended June 30, 2004 and proper controls and procedures for maintaining the capital asset schedule and review of work appear to be in place. The capital asset policy has not been updated so we continue to recommend revisions be made. *The policy has been reviewed and an updated policy will be presented to the Commissioners for approval on December 7, 2004.*

SINGLE AUDIT PROCEDURES

Upon review of the schedule of expenditures of federal awards, we noted that the current controls and procedures for gathering information to prepare the schedule were not followed. There appeared to be some confusion as to when deferred revenue and grants receivable should be recognized. There also appeared to be some confusion with the "matching" grants on the federal awards schedule; the matching portion should not be considered when determining the total federal awards expended.

Current Status: No major adjustments to the schedule of expenditures of federal awards or to the general ledger with regard to federal awards were needed in the current year. There appears to have been a proper review of the schedule as well as a better understanding of federal awards.

DEBT

During the years ended June 30, 2001, 2002, and 2003, the City did not meet the rate covenant provision for the Golf Course revenue bonds. The percent of bond coverage was less than the required 140%. We recommended that the City prepare a schedule of altered rates, charges and rentals and place these changes in operation as soon as possible.

Current Status:

The City prepared a schedule of altered rates, charges and rentals as recommended; however, the City did not meet the rate covenant provision for the fiscal year ending June 30, 2004. We recommend that a new schedule of altered rates, charges and rentals be prepared and the changes be placed in operation as soon as possible. *The City will decrease operating expenses in fiscal year 2005 and to replace Interfund loan obligations in the amount of \$318,300 with capital contributions for the same amount.*