

AGENDA REPORT

DATE December 20, 2005

**ITEM** Audit Report, FY 2004-2005

**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 2004-2005 Comprehensive Annual Financial Report (CAFR) and approve the responses to the auditor's recommendations contained in the FY 2004-2005 Audit Management Letter.

**MOTION:**

I move the City Commission accept the FY 2004-2005 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 2004-2005 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, 2005, 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 2004-2005 CAFR, the Independent Auditor's report, responses to the GFOA's (Government Finance Officers Association) comments on the FY 2003-2004 CAFR and a brief summary of the FY 2004-2005 audit on December 13, 2005. The Audit Committee recommends the City Commission accept the CAFR and annual Independent Auditor's report.

Along with the FY 2004-2005 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 2004-2005 recommendations, status of prior year recommendations, and the City's response/disposition to each of the recommendations.

The FY 2004-2005 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 2004-2005 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 2004-2005 CAFR.

## **CITY OF GREAT FALLS, MONTANA**

Financial and Compliance Audit

For the Year Ended June 30, 2005

### **RESPONSE TO INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE:**

#### **CURRENT COMMENTS AND RECOMMENDATIONS**

##### **CITY COURT TRUST CHECKING ACCOUNT**

We noted during our audit a lack of segregation of duties regarding the City Court trust checking account. The Court Supervisor has authority to issue checks, sign checks, and reconcile the account. Furthermore, there is no indication on the reconciliation of any review and approval.

**Recommendation:** We recommend segregating the duties vested in the Court Supervisor. One individual should not have the authority to sign and disburse checks as well as perform the reconciliation of the account. The reconciliation of this account should be reviewed and approved by appropriate personnel. The review and approval process could be documented by simply initialing and dating the reconciliation.

**Response/Disposition:** Prior to October 2005, the City Court trust checking account was the property of and administered by Judge Nancy Luth. City employees performed the check writing and reconciliation functions at the request of the Judge. As of the end of October City Court went to the "Full Court" accounting software. This software integrates all aspects of City Court including the trust checking account. The recommended procedures for City Court Personnel to follow in the Full Court system will be implemented.

#### **PRIOR YEAR COMMENTS AND THEIR CURRENT STATUS**

##### **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 was 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 was only done once a year. We recommended an adjustment be calculated and posted monthly in order for personnel to gain a better understanding of these areas enabling them to make the calculations accurately and consistently.

**Current Status:** This recommendation was implemented in January 2005.

**CITY OF GREAT FALLS, MONTANA**  
Financial and Compliance Audit  
For the Year Ended June 30, 2005

**PRIOR YEAR COMMENTS AND THEIR CURRENT STATUS (continued)**

**CAPITAL ASSETS**

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

**Current Status:** The capital asset policy has been reviewed and an updated policy was approved by the City Commission on December 7, 2004. Most of the capital asset additions and disposals were accurately recorded during the year ended June 30, 2005. Proper controls and procedures for maintaining the capital asset schedule and review of work appear to be in place, however, immaterial differences exist between the capital asset schedules and the general ledger accounts. These should be investigated and either the schedules or the general ledger should be adjusted as appropriate.

**Response/Disposition:** The immaterial differences that exist between capital asset schedules and the general ledger have been identified and will be corrected in Fiscal Year 2006.

**DEBT**

During the years ended June 30, 2001, 2002, 2003, 2004, and 2005 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 hired the National Golf Federation consulting firm to conduct a study of the golf course operations in order to develop operations alternatives, a five year business plan, and develop a seven to ten year operations proforma.

**CITY OF GREAT FALLS, MONTANA**  
Financial and Compliance Audit  
For the Year Ended June 30, 2004

**CITY OF GREAT FALLS, MONTANA**  
Financial and Compliance Audit  
For the Year Ended June 30, 2004

**CITY OF GREAT FALLS, MONTANA**  
Financial and Compliance Audit  
For the Year Ended June 30, 2004