

CITY OF SAVANNAH, MISSOURI

Required Communications and Management Letter

For the Year Ended September 30, 2012

City of Savannah, Missouri

Required Communications and Management Letter For the Year Ended September 30, 2012

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COCHRAN HEAD VICK & CO., P.C.

Certified Public Accountants

March 29, 2013

400 Jules Street
Suite 415
St. Joseph, MO 64501
(816) 364-1118
Fax (816) 364-6144

To the Honorable Mayor and Board of Aldermen
City of Savannah, Missouri

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Savannah, Missouri (the City) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 29, 2013. We were not provided a listing of governmental activities capital assets nor has the City recorded depreciation expense on those assets. Governmental capital assets represent a significant portion of the City's governmental activities assets. Because we were not provided a listing of governmental capital assets, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the governmental activities of City, as of and for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 3, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 11, management determined that certain adjustments to beginning net assets/fund balances were necessary. Also described in Note 11, management has changed the financial statement presentation of certain fiduciary information. We were not provided a listing of governmental activities capital assets nor has the City recorded depreciation expense on those assets. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates used by the City's management include estimated useful lives of business-type capital assets, the allowance for uncollectible accounts receivable, the estimated obligations relating to pension and other post-employment benefits, and landfill closure and post-closure care costs.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements as discussed above and described in Note 11. Management determined that certain adjustments to beginning net assets/fund balances were necessary. Also described in Note 11, management has changed the financial statement presentation of certain fiduciary information.

The financial statement disclosures are neutral, consistent, and clear.

Other Offices

1333 Meadowlark Lane
Kansas City, KS 66102
(913) 287-4433
(913) 287-0010 FAX

6700 Antioch Rd, Suite 460
Merriam, Kansas 66204
(913) 378-1100
(913) 378-1177 FAX

1251 NW Briarcliff Prkwy
Suite 125
Kansas City, MO 64116
(816) 584-9955
(816) 584-9958 FAX

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit. However, there were some delays in receiving certain audit schedules. We were not provided a listing of governmental activities capital assets nor has the City recorded depreciation expense on those assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The material misstatements detected as a result of audit procedures, including prior period adjustments, corrected by management were as follows:

- Adjustments were required to record and report various accounts receivable and revenues related to taxes, special assessments, utility accounts, unbilled utility accounts, and the allowance for doubtful accounts totaling \$173,465.
- Adjustment to correct accrued interest payable totaling \$188,836.
- Adjustment to record and report compensated absences and net pension obligation of \$87,227.
- Adjustment to record and report contractual obligations totaling \$110,918.
- Adjustment to revise beginning landfill obligation for updated information \$34,101.
- Adjustment to record refunding bonds issued \$2,270,000.
- Adjustments to record, report and correct debt bond trust accounts and related debt service transactions totaling \$295,471.
- Adjustment to record depreciation expense of \$454,752.
- Adjustment to record contributed capital assets of \$46,495.
- Adjustments to record grant funding payback obligation and the related funding grant receivable from Metropolitan Planning Organization of \$70,658.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 29, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Audit Findings or Issues

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described below under "Financial Reporting" to be material weaknesses.

As part of our annual audit, we try to identify opportunities for improving the management of financial resources and for improving the internal controls over financial reporting. We are submitting, for your consideration, our observations and recommendations with regard to these matters.

The City's responses to our comments are included with this report. We did not audit the City's responses and, accordingly, we express no opinion on them.

Current Year Comments

Financial Reporting

Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for ensuring that all transactions are properly authorized, captured, and reported in the financial statements.

Under professional standards, we have to assess the City's capability of preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement. A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. Control deficiencies exist when the City does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

As part of our audit, management requested us to prepare a draft of the City's financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance. The outsourcing of these services is not unusual. However, we cannot be considered part of the City's internal control over financial reporting.

While performing our procedures we noted deficiencies in the controls over financial reporting associated with the recording and reporting of certain financial transactions in accordance with generally accepted accounting principles (GAAP). We determined that a number of adjustment entries were required, including prior period adjustments, that were material to the financial statements. These adjustments arose, in part, because of the following deficiencies in internal control over financial reporting and other circumstances. We consider these deficiencies, both individually and in the aggregate, to constitute material weaknesses in internal control over financial reporting:

- Management does not have an adequate system of control in place to ensure that the trial balance used in the preparation of financial statement includes all of the required journal entries. Further, adjusting journal entries proposed by the auditor in the prior year and accepted by management were not timely recorded in the general ledger system.
- The City maintains its general ledger on the cash basis of accounting and the year-end audited financial statements are prepared using the modified accrual basis of accounting. Therefore certain accrual basis entries must be made at year end for financial statement presentation. The City provided us with certain accrual and modified accrual basis adjustment entries; however, we had to modify and in certain instances added to the adjustments that were provided by the City.
- The City does not have knowledgeable personnel to monitor changes in authoritative guidance and regulations that affect the City and make the appropriate changes to the City's accounting policies and procedures on a timely basis.
- Reconciliations of significant accounts as well as accruals required under GAAP were either not made or were not made completely and accurately. This included, but was not limited to, reconciling and recording of the City's bond cash account activity, reconciliation and review of the City's utility fund's accounts receivable and aging reports to billings and collections, reconciliation of special assessments taxes receivable, accounts payable, and accrued expenses.
- We were not provided a complete historical or estimated historical cost listing of governmental capital assets.
- Due to the limited number of personnel, certain duties over key accounting functions are combined and assigned to the available employees. In some instances, such as bank reconciliations, journal entry transactions or certain cash receipt transactions, one individual could but should not be responsible for receiving, processing and reconciling individual transactions.

We submit the following recommendations to improve the City's internal control over financial reporting.

Due to the complexities of accounting for many of the City's transactions we recommend that management explore alternatives for improving the controls over financial reporting. The City should establish and document a well-defined process for financial reporting. This should include assessing its personnel needs and evaluating if the City has the necessary number of experienced and knowledgeable personnel or consider contracting with a qualified outside service provider to provide the required expertise to undertake the City's financial reporting objectives. We also recommend that City personnel consider attending continuing professional education seminars and other training courses. There are also many excellent reference guides available to assist personnel in their understanding and application of generally accepted accounting principles.

We also suggest that management review the processes, procedures, and controls used to accumulate year end accrual adjustments. Significant accruals, including accounts receivable, special assessments, and accounts payable and accrued expenses should be reviewed for completeness and accuracy. Management should consider fully utilizing the utility accounts receivable module to record, report and reconcile utility accounts receivable and revenues. Additionally, we suggest that management evaluate the process used to complete the year-end trial balance and revise policies and procedures to ensure that significant account balances are reviewed and adjusted. We recommended that the City conduct a review of accounting duties and implement procedures to ensure that incompatible duties are adequately segregated or that compensating controls have been implemented in such instances where it is not practical to segregate these accounting functions.

Management's Response:

It is not unusual for cities the size of Savannah to lack the formally trained financial professionals needed to prepare financial reports and statements that comply with the GASB (Government Accounting Standards Board) guidelines. Additionally, Savannah has not allocated the funds to procure and/or retain such a professional.

The City encourages staff to attend training that enhances Staff's abilities to perform the accounting activities and compile financial reports in a more professional manner.

Management is exploring the opportunity to upgrade the City's accounting software to include the utility accounts receivable module to enable staff to reconcile utility accounts receivables and revenues.

The Administrative Staff responsible for these duties is limited to three and one-half individuals who manage the entire operations of the City. Controls are compromised when one of these individuals is away on paid leave, and others must step in and act in her place.

Management will recommend to Council that the City either hire a full-time Government Accounting Professional to support the City's need for effective, accurate, and on-time financial reporting, or hire a consultant on a part-time basis to meet that need.

Combined Water and Sewer Bonds

The City's combined water and sewer bond ordinances require the City to establish and fund certain depreciation and replacement accounts, debt service accounts, and debt service reserve accounts. As of September 30, 2012, the City's is deficient in the required funding of these various accounts by approximately \$640,000 with the most significant deficiencies related to the Series 2004 and 2007 debt service reserve accounts of \$375,000 and \$125,600, respectively. We recommend that management evaluate the additional revenues generated from the rate increase implemented in 2012 and implement a corrective action plan to increase the funding of these accounts.

Management's Response:

The City Council has been aware for three years that the revenues from the operations of the Water and Wastewater systems were not sufficient to meet debt requirements, reserves and operating/capital expenses. The Council enacted a 48% rate increase in May of 2012, which effectively increased revenues to meet bond payments. The Council realized that it would take approximately five (5) years after the rate increase to collect sufficient revenues to fulfill the reserve requirements.

Management will recommend to Council to accelerate the schedule for transfers in order to build those reserves to their appropriate level by 2015.

Purchasing and Procurement

The City Code requires competitive bids as a prerequisite to vendor selection depending upon the amount of the purchase. However, our audit procedures determined that this requirement was not consistently being followed. We believe that internal controls and compliance over purchasing and procurement would be significantly improved if the City followed the current established City Code for competitive bidding.

Management's Response:

Management recognizes that there were instances wherein the procurement policy was not followed, because the City needed immediate action taken on an item. In particular, the City did not formally bid the Water Rate Analysis, as the need for a rate increase was immediate. The City did seek recommendations from the City Administrators in Missouri to locate a consultant who would be able to deliver a rate analysis and recommendation for increases in a most expedient manner. The City did receive a proposal from another consultant, and that proposal was presented to Council. Council voted to contract with the consultant staff recommended.

It is Management's full intent to follow the procurement policy, and make recommendations to Council for revisions to the policy so that day-to-day activities and procurements may be made without risking a violation.

Journal Entry Approval and Support

During our audit, we noted that journal entries did not have formal evidence of supervisory review and approval and did not always have sufficient supporting documentation. We recommend that management review and revise current policies and procedures to develop a formal supervisory review and approval process of journal entries and that sufficient supporting documentation be attached and maintained to support adjusting entries.

Management's Response:

Management performs a cursory and verbal review of journal entries, but does not request printed documentation for review. Management will begin reviewing complete documentation and sign off on the review process.

Capital Assets

While the City maintains a listing of certain governmental capital assets for insurance purposes, the City did not provided us with a complete listing of governmental activities capital assets for financial reporting purposes. We recommend that the City develop a complete listing of governmental capital assets using available historical cost records or estimated cost if historical cost records are not available. We also recommend that the City consider taking a complete capital assets inventory.

Management's Response:

The City has never compiled or maintained a "complete" listing of capital assets and cost records. Management recognizes the value in performing an inventory and maintaining a list for annual review. Management will consider the best and most cost effective method for compiling an inventory and make a recommendation to Council.

Stewardship, Compliance and Accountability - Budgeting

For the year ended September 30, 2012, actual expenditures and transfers out exceeded budgeted appropriations in the City's Park Fund by \$28,541, Street Drainage Certificate of Participation Fund by \$2,256,686 as a result of the current refunding of the \$2,195,000 outstanding Series 2002 Storm Water Certificates of Participation, and the Park and Recreation Certificate of Participation Fund by \$350. We recommend that management review its processes and procedures for monitoring and amending the budget.

Management's Response:

During 2012, transfers out of \$51,476 was made to the Parks and Recreation COPS Fund to eliminate a deficit cash balance in that fund and a transfer out of \$46,622 was made to establish a separate fund for the Chester Baum funds received in the Parks Fund. While these transfers out were approved by the Park Board, a formal budget amendment was not completed.

Management was not aware that the refinancing for Stormwater COPS would require a budget amendment as the refunding expenditures did not exceed the refunding bond proceeds.

Management will review and revise the processes of monitoring and comparing budget and actual results and will propose budget amendments when necessary.

Key Employees and Cross Training

It is not unusual to have employees who devote their entire career working for the City with some of these employees eventually assuming key positions within City management. Given the considerable amount of operational knowledge and experience of these key employees, the City is exposed to certain management risks including among others, the possible loss of continuity and disruption in City's operations in the event of the loss a key employee either through retirement, resignation or some unforeseen circumstance. We recommend that City management evaluate and identify the exposure to such risks and develop plans to mitigate such risks. Such plans might include: developing an emergency management plan; perform succession planning for key members of management; and increased cross-training of City personnel.

Management's Response:

The aging demographic of our personnel is of great concern to Management, as is the autonomous nature of the technical staff. In order to address the possible retirement of nearly 40% of our personnel who are retirement-eligible, Management has recommended to Council that the City begin working on a succession plan for key personnel.

In the past year, the City combined the Water and Wastewater operations and required that all of the staff be trained to serve at either one of the facilities.

The City has limited funds available for recruiting and retaining highly trained and/or educated professionals in the technical fields. Therefore, it is in the best interest of the City to recruit employees who are interested in "on-the-job" training and certifications, as opposed to recruiting degreed professionals who command a much higher compensation package than the City is able to pay.

Future Accounting Pronouncements

The GASB has recently issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB Statement 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the fiscal year beginning October 1, 2012.
- GASB Statement 61 – *The Financial Reporting Entity – Omnibus*, effective for the fiscal year beginning October 1, 2012.
- GASB Statement 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the fiscal year beginning October 1, 2012.
- GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the fiscal year beginning October 1, 2012.
- GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the fiscal year beginning October 1, 2013.

- GASB Statement No. 66 - *an amendment of GASB Statements No. 10 and No. 62*, effective for the fiscal year beginning October 1, 2013.
- GASB Statement No. 67 - *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, effective for the fiscal year beginning October 1, 2013.
- GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the fiscal year beginning October 1, 2014.
- GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*, effective for the fiscal year beginning on October 1, 2014.

We recommend management review these standards to determine the impact they may have on the City's financial reporting.

Management's Response:

It is not unusual for cities the size of Savannah to lack the formally trained financial professionals needed to prepare financial reports and statements that comply with the GASB (Government Accounting Standards Board) guidelines. Additionally, Savannah has not allocated the funds to procure and/or retain such a professional.

Management will recommend to Council that the City either hire a full-time Government Accounting Professional to support the City's need for effective, accurate, and on-time financial reporting, or hire a consultant on a part-time basis to meet that need.

Conclusion

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

Our audit procedures required us to obtain an understanding of controls over primary systems affecting the financial statement amounts. The City may be able to benefit from additional, in-depth reviews of internal controls in other areas. We look forward to discussing opportunities to continue to assist the City.

This information is intended solely for the use of the Mayor, Board of Alderman, management of the City, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Cochran Head Vick & Co., P.C.

COMPLIANCE REPORT



COCHRAN HEAD VICK & CO., P.C.

& Co

Certified Public Accountants

400 Jules Street
Suite 415
St. Joseph, MO 64501
(816) 364-1118
Fax (816) 364-6144

**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***

To the Honorable Mayor and Board of Aldermen
City of Savannah, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Savannah, Missouri (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2012-01 to be material weaknesses.

Other Offices

1333 Meadowlark Lane
Kansas City, KS 66102
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(913) 287-0010 FAX

6700 Antioch Rd, Suite 460
Merriam, Kansas 66204
(913) 378-1100
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Suite 125
Kansas City, MO 64116
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(816) 584-9958 FAX

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-2.

We noted certain other matters that we reported to management of City in a separate letter dated March 29, 2013.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This information is intended solely for the use of the Mayor, Board of Alderman, management of the City, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



March 29, 2013

City of Savannah, Missouri
Schedule of Findings and Responses
For the Year Ended September 30, 2012

2012-01 Financial Reporting

Criteria

Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for ensuring that all transactions are properly authorized, captured, and reported in the financial statements. Under professional standards, we have to assess the City's capability of preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement. A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. Control deficiencies exist when the City does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

Condition/Cause

While performing our procedures we noted deficiencies in the controls over financial reporting associated with the recording and reporting of certain financial transactions in accordance with generally accepted accounting principles (GAAP). We determined that a number of adjustment entries were required, including prior period adjustments, that were material to the financial statements. These adjustments arose, in part, because of the following deficiencies in internal control over financial reporting and other circumstances. We consider these deficiencies, both individually and in the aggregate, to constitute material weaknesses in internal control over financial reporting.

- Management does not have an adequate system of control in place to ensure that the trial balance used in the preparation of financial statement includes all of the required journal entries. Further, adjusting journal entries proposed by the auditor in the prior year and accepted by management were not timely recorded in the general ledger system.
- The City maintains its general ledger on the cash basis of accounting and the year-end audited financial statements are prepared using the modified accrual basis of accounting. Therefore certain accrual basis entries must be made at year end for financial statement presentation. The City provided us with certain accrual and modified accrual basis adjustment entries; however, we had to modify and in certain instances added to the adjustments that were provided by the City.
- The City does not have knowledgeable personnel to monitor changes in authoritative guidance and regulations that affect the City and make the appropriate changes to the City's accounting policies and procedures on a timely basis.
- Reconciliations of significant accounts as well as accruals required under GAAP were either not made or were not made completely and accurately. This included, but was not limited to, reconciling and recording of the City's bond cash account activity, reconciliation and review of the City's utility fund's accounts receivable and aging reports to billings and collections, reconciliation of special assessments taxes receivable, accounts payable, and accrued expenses.
- We were not provided a complete historical or estimated historical cost listing of governmental capital assets.
- Due to the limited number of personnel, certain duties over key accounting functions are combined and assigned to the available employees. In some instances, such as bank reconciliations, journal entry transactions or certain cash receipt transactions, one individual could be responsible for receiving, processing and reconciling individual transactions.

Effect

A significant number of adjustments, including prior period adjustments, were required that are material to the financial statements that were not recorded on the original trial balance provided to us at the beginning of our audit or were not identified by the City's internal controls over financial reporting.

Recommendation

Due to the complexities of accounting for many of the City's transactions we recommend that management explore alternatives for improving the controls over financial reporting. The City should establish and document a well-defined process for financial reporting. This should include assessing its personnel needs and evaluating if the City has the necessary number of experienced and knowledgeable personnel or consider contracting with a qualified outside service provider to provide the required expertise to undertake the City's financial reporting objectives. We also recommend that City personnel consider attending continuing professional education seminars and other training courses. There are also many excellent reference guides available to assist personnel in their understanding and application of generally accepted accounting principles.

We also suggest that management review the processes, procedures, and controls used to accumulate year end accrual adjustments. Significant accruals, including accounts receivable, special assessments, and accounts payable and accrued expenses should be reviewed for completeness and accuracy. Management should consider fully utilizing the utility accounts receivable module to record, report and reconcile utility accounts receivable and revenues. Additionally, we suggest that management evaluate the process used to complete the year-end trial balance and revise policies and procedures to ensure that significant account balances are reviewed and adjusted. We recommended that the City conduct a review of accounting duties and implement procedures to ensure that incompatible duties are adequately segregated or that compensating controls have been implemented in such instances where it is not practical to segregate these accounting functions.

Management's Response/Corrective Action Plan

It is not unusual for cities the size of Savannah to lack the formally trained financial professionals needed to prepare financial reports and statements that comply with the GASB (Government Accounting Standards Board) guidelines. Additionally, Savannah has not allocated the funds to procure and/or retain such a professional.

The City encourages staff to attend training that enhances Staff's abilities to perform the accounting activities and compile financial reports in a more professional manner.

Management is exploring the opportunity to upgrade the City's accounting software to include the utility accounts receivable module to enable staff to reconcile utility accounts receivables and revenues.

The Administrative Staff responsible for these duties is limited to three and one-half individuals who manage the entire operations of the City. Controls are compromised when one of these individuals is away on paid leave, and others must step in and act in her place.

Management will recommend to Council that the City either hire a full-time Government Accounting Professional to support the City's need for effective, accurate, and on-time financial reporting, or hire a consultant on a part-time basis to meet that need.

2012-02 Combined Water and Sewer Revenue Bonds

Condition/Criteria

The City's combined water and sewer revenue bond ordinances require the City to establish and fund certain depreciation and replacement accounts, debt service accounts, and debt service reserve accounts. As of September 30, 2012, the City's is deficient in the required funding of these various accounts by approximately \$640,000 with the most significant deficiencies related to the Series 2004 and 2007 debt service reserve accounts of \$375,000 and \$125,600, respectively.

Cause

The City has insufficient revenues to fully fund these accounts.

Effect

The City is not in compliance with the established funding requirements.

Recommendation

We recommend that management evaluate the additional revenues generated from the rate increase implemented in 2012 and implement a corrective action plan to increase the funding of these accounts.

Management's Response/Corrective Action Plan

The City Council has been aware for three years that the revenues from the operations of the Water and Wastewater systems were not sufficient to meet debt requirements, reserves and operating/capital expenses. The Council enacted a 48% rate increase in May of 2012, which effectively increased revenues to meet bond payments. The Council realized that it would take approximately five (5) years after the rate increase to collect sufficient revenues to fulfill the reserve requirements.

Management will recommend to Council to accelerate the schedule for transfers in order to build those reserves to their appropriate level by 2015.

City of Savannah, Missouri
Schedule of Prior Year Findings and Responses
For the Year Ended September 30, 2012

11-1 Required Transfers

Condition

The City's combined water and sewer bond ordinances require that certain transfers be made to depreciation and replacement accounts, debt service accounts, and debt service reserve accounts. Transfers to the depreciation and replacement accounts were \$3,000, which was \$15,000 less than required. Transfers to debt service accounts were \$836,356 which was \$117,472 less than required. Transfers to debt service reserve accounts were \$-0-, which was \$51,600 less than required.

Recommendation

The prior auditor's recommended that the City make the required transfers on a monthly basis as required by the bond ordinances. When resources are insufficient to make the required transfers, the ordinance states that the City will make good the amount of the deficiencies by making additional payments out of the first available revenues of the water and sewer system.

Current Status

The City has made some progress in funding the required accounts as a result of additional revenues from a rate increase. However there are still significant funding deficiencies as of September 30, 2012. Comment repeated as 12-02.

11-2 Interfund Payables and Receivables

Condition

At September 30, 2011, the total amount of pooled cash was \$55,546 less than the amount of restricted cash. At September 30, 2011, the parks fund had \$50,514 due to other funds. At September 30, 2011, the neighborhood improvement fund had \$5,032 due to other funds.

Recommendation

The prior auditor's recommended that the City pay back to the restricted funds any amounts of restricted cash due to those funds. In addition, it was recommended that the City maintain in pooled cash an amount no less than the amount of restricted cash.

Current Status

Recommendation implemented.