

CITY OF DELLWOOD, MISSOURI
FINANCIAL STATEMENTS,
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

DRAFT

City of Dellwood

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FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

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CITY OF DELLWOOD, MISSOURI
STATEMENT OF ASSETS, LIABILITIES
AND FUND BALANCE - MODIFIED CASH BASIS
DECEMBER 31, 2012

ASSETS:

Cash and Cash Equivalents	\$ 769,820
Investments	915,560
Capital Assets, net of accumulated depreciation	142,535
<u>TOTAL ASSETS</u>	<u>\$ 1,827,915</u>

LIABILITIES:

FUND BALANCE:

Restricted	\$ 216,825
Assigned	1,361,512
Unassigned	<u>249,578</u>
TOTAL FUND BALANCE	1,827,915
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,827,915</u>

See accompanying notes to the financial statements

CITY OF DELLWOOD, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2012

REVENUES:

Taxes - Real Estate	\$50,012
Taxes - Personal Property	34,107
Taxes - Utility	536,280
Taxes - Gasoline	127,943
Taxes - Cigarette	14,487
Taxes - Sales/Auto	713,014
Taxes - Road Refund	42,433
Taxes - Railroad/Utility	2,412
Taxes - Cable Television	29,906
Taxes - Storm Water/Local Parks	25,840
Taxes - Half-Cent Sales Tax	120,480
Taxes - 310	4,521
Taxes - Capital Improvements	313,150
Licenses and Permits	91,472
Municipal Court Receipts	322,519
Recreation Center Receipts	232,811
Misc Receipts	124,638
Sewer Lateral Fees	53,174
Interest	<u>17,512</u>

TOTAL REVENUES

2,856,711

EXPENDITURES:

General Government	613,487
Municipal Court	138,091
Police	1,092,303
Recreation Center	388,312
Public Relations	13,554
Public Works	419,382
Parks	112,315
Health	12,982
Emergency Preparedness	3,093
Depreciation Expense	<u>32,291</u>

TOTAL EXPENDITURES

2,825,810

**EXCESS OF REVENUES OVER
EXPENDITURES - MODIFIED CASH BASIS**

30,901

FUND BALANCE AT BEGINNING OF YEAR

1,797,014

FUND BALANCE AT END OF YEAR

\$ 1,827,915

See accompanying notes to the financial statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Dellwood (the "City") operates under a Mayor and eight-member Board of Aldermen form of government and provides various services including public safety (police and fire), capital improvements, planning and zoning, and general administrative services.

Reporting Entity

The City defines its financial reporting entity in accordance with Governmental Accounting Standards Board ("GASB") Statements No. 14 and No. 39. Criteria for including a potential component unit within the reporting entity include the governing body's ability to exercise financial accountability. Financial accountability includes control or dependence over budget adoption, taxing authority, funding and appointment of the respective board. Based upon the application of these criteria, the City does not have any component units.

Basis of Presentation

The financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have (not) been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than US GAAP. Under US GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed. Basis differs from generally accepted accounting principles because the City does not recognize current year receivables, accounts payable to vendors, and their related effects on the change in fund balance.

Acceptable modifications to the cash basis of accounting implemented by the City include:

Recording all material assets, liabilities, receipts and expenditures arising from cash transactions.

Recording of capital assets arising from cash transactions and depreciating those assets where appropriate.

The Statement of Assets, Liabilities, and Fund Balance and Statement of Revenues,

City of Dellwood
Notes to Financial Statements
December 31, 2012

Expenditures and Changes in Fund Balance presents financial information about the City as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Assets, Liabilities and Fund Balance presents the financial condition of the governmental activities of the City at year-end. The Statement of Revenues, Expenditures and Changes in Fund Balance presents a comparison between expenses and revenues for the City's governmental activities.

Management has not consistently recorded capital assets or depreciation expense in the governmental activities as mandated by the Government Accounting Standards Board Statement (GASB) No. 34. Accounting principles generally accepted in the United States of America require asset capitalization and depreciation over the asset's estimated useful life and reported as a direct expense of each associated functional activity, which would increase capital assets, net assets, and expenses, and changes in net assets reported in the governmental and business-type activities. The City is required to report assets and liabilities, such as taxes receivables, allowance for bad debt, compensated absences, and long-term debt, such as bonds, capital leases, and certificates of participation, on the full accrual basis as opposed to the cash basis which is another comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The amount by which these departures would affect the related financial statements is not determinable.

A major fund is any fund whose assets, liabilities, revenues, or expenditures constitute ten percent (10%) or more of the total for the Governmental fund type *and* five percent (5%) of the total for the Governmental fund type and the Business fund type, combined. A government that reports only governmental funds need only apply the 10% test; this condition applied to City of Dellwood for the year ended December 31, 2012. Financial information is most useful when each major fund is presented separately rather than when fund combination is reported, such as the aggregation of the special-purpose funds into a special revenue fund type. GASBS-34 financial reporting model requires the presentation of individual fund data for each of the major funds of the City. Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the City's governmental activities, business-type activities, and discretely presented component units have not been determined.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in respective governmental funds can be spent. The classifications used are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

City of Dellwood
Notes to Financial Statements
December 31, 2012

Restricted - This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Alderman. These amounts cannot be used for any other purpose unless the Board of Alderpersons removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of December 31, 2012.

Assigned – This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Alderman or through the Board of Alderman delegating this responsibility to the City Administrator through the budgetary process.

Unassigned - This classification includes residual fund balance that cannot be eliminated by offsetting of assigned fund balance amounts.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Cash and Cash Equivalents

Cash is comprised of the City's cash deposits with banks and petty cash funds. Cash equivalents consist of bank repurchase agreements and are stated at cost which approximates fair value.

Capital Assets and Depreciation

Capital assets, which include building improvements, office furniture and equipment, machinery and equipment, and vehicles, are reported in the Statement of Assets, Liabilities, and Fund Balance, net of accumulated depreciation. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life greater than one year. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an expense in the Statement of Revenues, Expenditures and Changes in Fund Balance with accumulated depreciation reflected in the Statement of Assets, Liabilities and Fund Balance and is provided on the straight-line bases over the following estimated useful lives:

Building and other improvements		10 - 50 years
Office furniture and equipment		5 - 20 years
Machinery and equipment		3 - 20 years

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through February 18, 2014, the date the financial statements were available to be issued.

B. CASH AND INVESTMENTS

The City is governed by the deposit and investment limitations of state law. It is the policy of the City of Dellwood to invest and manage its funds in a manner which will provide the highest investment return with the lowest risk, while ensuring the daily cash flow demands of the City and all state and local statutes governing the investment of public funds are fulfilled. The City's policy and state law authorize the following types of investments:

- a) U.S. Treasury Bills, Notes, and Bonds
- b) U.S. Government Agency Securities and Instrumentality Obligations
- c) Repurchase Agreements Collateralized by Government Securities
- d) Certificates of Deposit - Collateralized
- e) Savings or Checking accounts

The deposits and investments held at December 31, 2012, and reported fair value, are as follows:

Type	Maturity	Carrying Value
Cash and Investments:		
Government Securities	NIA	\$ 500,891
Certificates of deposit	Various	393,565
Cash on hand	NIA	790,924
Total Cash and Investments		\$ 1,685,380

C. TAX INCREMENTAL FINANCING COMMITMENTS

The City of Dellwood created a Tax Increment Financing District ("TIF") in 2007 and the TIF subsequently issued a note entitled - the "City of Dellwood, Missouri Tax Increment Revenue Note (Chambers/West Florissant Redevelopment Project), Series 2007." The note was issued in the principal amount of \$4,045,848 at 10.25%, paid twice a year beginning March 1, 2008, for the purpose of paying a portion of the Redevelopment Project Costs in connection with the City's Redevelopment Plan.

City of Dellwood
Notes to Financial Statements
December 31, 2012

The TIF Note is a special, limited obligation of the City payable ratably, and solely from, and secured as to the payment of principal and interest by a pledge of the Available Revenues stemming from TIF district changed taxable activities and collections. The taxing power of the City is not pledged to the payments of the TIF Note either as to principal or interest. The TIF Note does not constitute a general obligation of the City.

Those Available Revenues attributable to PILOTS to the PILOTS Account of the Revenue Fund, Available Revenues attributable to EATS to the EATS Account of the Revenue Fund, and Available Revenues attributable to CID Revenues to the CID Revenues Account of the Revenue Fund.

The TIF Note matures October 10, 2028. \$233,387 in interest expense was paid in 2012.

D. CAPITAL ASSETS

The capital assets, listed on the Statement of Assets, Liabilities, and Fund Balance – modified cash basis, are comprised of the following items:

<u>December 31, 2012</u>	<u>Amount</u>
Furniture & Equipment	\$ 1,779
Building Improvements	15,720
Equipment & Machinery	53,566
Vehicles	103,761
Total Capital Assets	<u>174,826</u>
Accumulated Depreciation	<u>32,291</u>
Net Capital Assets	<u>\$ 142,535</u>

Depreciation expense amounted to \$32,291 for the year ended December 31, 2012.

E. PENSION PLAN

Plan Description

The City participates in the Missouri Local Government Employees Retirement System ("LAGERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute section RSMo 70.600 – 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under Internal Revenue Code Section 401 (a) and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City,

City of Dellwood
Notes to Financial Statements
December 31, 2012

Missouri 65102 or by calling 1-800-447-4334.

Funding Status

Full-time employees of the City do not contribute to the pension plan. The June 30th statutorily required contribution rates are 7.9% (General), and 5.9% (Police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost (APC) and Net Pension Obligation (NPO)

The required contribution for calendar year 2012 was \$57,887.

<u>Three Year Trend Information</u>			
For the Plan Years Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$57,887	96.70%	\$88,939
2011	\$113,197	54.30%	\$87,000
2010	\$93,410	62.20%	\$35,309

The annual required contribution (ARC) was determined as part of the February 28, 2010 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2012 included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of February 28, 2010 was 30 years for the General division, 30 years for the Police division, and 9 years for the Fire division.

Funded Status and Funding Progress

As of February 28, 2012, the most recent actuarial valuation date, the plan was 103% funded. The actuarial accrued liability for benefits was \$3,020,648 and the actuarial value of assets was \$3,104,010, resulted in an overfunded accrued liability (UAL) of \$83,362. The covered payroll for calendar 2012 (annual payroll of active employees covered by the plan) was \$1,146,799.

F. OPERATING LEASES

The City has an operating lease for office equipment, expiring in 48 months. The lease requires the City to pay all executor costs such as maintenance and insurance.

The future minimum payments under these leases were as follows at December 31, 2012:

Year Ended December 31,	Amount
2013	\$6,459
2014	6,459
2015	6,459
2016	6,459
Total	\$25,836

Operating lease expenses was \$4,351 under these and other month to month lease contracts for the year ended December 31, 2012.

G. ECONOMIC DEPENDENCY

Dellwood's funding is dependent on sustaining the assessed valuation of taxable assets and the flow of local commerce. The loss of, or inability to sustain the value of the taxable basis, either the property appraisals and subsequent valuation, and the flow of taxable commerce, may result in a question of continued capability.

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**Independent Auditor's 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**

Board of Alderpersons
City of Dellwood, Missouri

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Dellwood, Missouri ("the City") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Dellwood, Missouri ("the City")'s basic financial statements and have issued our report thereon dated February 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, procedures for the purpose of expressing our opinion on the financial statements, 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 described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 to be material weaknesses, 2012-6.

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.

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 we consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies, 2012-5.

We noted certain matters that we reported to management of City of Dellwood, Missouri, in a separate letter dated February 18, 2014.

This report is intended solely for the information and use of the City Alderpersons, management of the City, and federal-awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

CRWilliams & Associates LLC
Merrillville, Indiana
February 18, 2014

February 18, 2014

To the Board of Alderpersons of
The City of Dellwood
Dellwood, Missouri

SCHEDULE OF INTERNAL ACCOUNTING/ADMINISTRATIVE CONTROL FINDINGS, AND RECOMMENDATIONS

Communication of Significant Deficiencies and Material Weaknesses

In planning and performing our audit of the financial statements of the City of Dellwood as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Dellwood's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following to be deficiencies in internal controls.

Control Deficiencies

Finding 2012-1 Incorrect Financial Reporting Format

Criteria: 11 CSR 45-8.040 Accounting Records, 20 CSR 2231-1.010 General Organization, 12 CSR 10-7.030 Record Keeping and Filing of Reports; All books of the City should be in a format capable of preparing financial statements

Conditions: Auditors found that the books were not being recorded and balanced according to each of the separate funds that are required for financial reporting.

Cause: Accountant was unaware that the funds must be balanced and capable of producing individual financial statements by fund.

Effects: The financial statements could not be broken down by fund.

Recommendation: The City should record and balance financial statements according to fund.

Response: Beginning with calendar year 2012, the City has separated each fund (i.e. general fund, park and stormwater, capital improvement, sewer lateral, TIF (2014)), by class during its budget process. However, these funds were not separated in the City's Quick Book System. The Administration has met with Schmersahl Treloar and Co. to correct this audit finding for calendar year 2014.

Finding 2012-2 Remittance of Agency Proceeds

Criteria: 28 C.F.R. § 9 and Section 488.5336 RSMo. The Court collects certain fines that are required to be remitted to the State of Missouri for both CVC (Crime Victims Compensation) fees and POST (Police Training).

Conditions: The City of Dellwood currently records these agency fees as revenue and the disbursement as an expense of the City. When paid the CVC fines are recorded as an expenditure of the City. The POST fines were not remitted to the appropriate agency.

Cause: The Clerk of the Court and the accountant did not communicate regarding the fines requiring remission to a third party.

Effect: \$13K CVC liabilities have been recorded as revenue on the City of Dellwood's books. The Training fees are \$2.00 per fine or approximately \$2,500 for this year. The Fine has been in force since at least the year 2000 and the City has never paid.

Recommendation: We recommend that the City record the CVC court fees as liabilities when incurred and pay all Court liabilities requiring remission to third parties.

Response: The Court Administrator has contacted the State of Missouri in regards to the POST (Police Training) fees and has remitted the required fees in order that the City is in compliance with State Statute. As of calendar year 2014, this is a budgeted item, as well as the CVC (Crime Victims Compensation) fees, in which revenues and expenditures are recorded as a liability and court liabilities are remitted to the State of Missouri monthly.

Finding 2012-3 Inequitable Taxation within the TIF District

Criteria: Real Property Tax Increment Redevelopment Act, Sections 99.800 to 99.865 RSMo (TIF Act), Ordinance 1173, 1173-A, 1140, 1139. All parcels of land included in the TIF and CID (Capital Improvement District) should be taxed according to the law enacted by the City of Dellwood.

Condition: Auditors found that at least five properties that should have been included in the CID were not collecting the additional taxes required.

Cause: The CID and administration failed to monitor all properties within the CID to ensure that all were collecting the taxes according to the redevelopment agreement.

Effects: Properties included in the CID are taxed an additional 1% in sales taxes. These taxes were to help service the bond indebtedness.

Recommendation: We recommend that the City review the TIF information received from the CID and ensure that the developer is complying with the redevelopment agreement

Response: After making CRWilliams aware of the lack of revenue (taxes) collected for the TIF (Tax Increment Financing) since its inception in 2007, it was found that retailers that a part of the CID (Capital Improvement District), were not collecting the additional 1% sales tax. I have made the City Attorney aware of this issue and he will be doing further investigations.

Finding 2012-4 Incomplete Personnel Files

Criteria: Personnel policy and procedures manual documented in the section on payroll administration page 2 items 4.1. Personnel files should be complete and updated periodically.

Condition: During our testing of payroll, there were 6 incidents of items missing from personnel files.

Cause: It is standard practice to document the hiring of an employee. Incomplete data raises serious concern as to completeness of the database change processes. The cause of the condition limited oversight controls by the Human Resource activities.

Effect: Potential violations of federal and state laws and/or regulations may stem from insufficient supporting evidence of transactions which can result in questioned costs.

Recommendation: The district should follow a policy wherein all associated documentation is presented in each personnel file.

Client Response: Agreed

Significant Control Deficiencies

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant control deficiencies.

A significant weakness is yet important enough to merit attention by those charged with governance. We consider the following deficiencies in City of Dellwood's internal control to be significant deficiencies: a significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness.

2012-5 Finding: Procurement and Contract Violations

Condition: Procurement transactions have not met the requirements of the CDA procurement procedures, eligible transactions evaluations have not been documented as prescribed in the procurement procedures.

Criteria: A-110, subpart C post-award requirements, procurement standards, 44(d) procurement procedures -Contracts shall be made only with responsible contractors that possess the potential ability to perform successfully under the terms and conditions of the proposed procurement.

Cause: Transactions are procured without applicability of the required processes. During our testing of cash disbursements there were 3 large expenditures recorded that would require several bids. We did not receive documentation verifying the bids that were evaluated.

Effect: Transactions are processed which require conformance to procurement procedures thereby obviating the controls to address spending appropriateness, authorization, or best use of resources. The impact is procurement is out of compliance.

Recommendation: The organization should enforce the internal control practices designed as a policy established for structural guidance.

Client Response:

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses. We consider the following deficiencies to be material weaknesses in internal control.

Finding 2012-6 Deficiency in the Completeness of Transactions Processed

Criteria: 11 CSR 45-8.040 Accounting Records, 20 CSR 2231-1.010 General Organization, 12 CSR 10-7.030 Record Keeping and Filing of Reports; All transactions effecting the current period should be recorded on the books of the City of Dellwood and included in the profit and loss of that period.

Condition: Auditors found that the City of Dellwood failed to record transactions relating to the TIF, Drug Seizures, and various grants as revenues and expenses of the current accounting period.

Cause: The accountant fail to recognize that all transactions relating to taxes, grants and asset sharing should have been recorded on the books.

Effects: The City of Dellwood omitted \$237K in TIF revenue from the books. The TIF revenues and payments were charged to fund balance and therefore unaccounted for during the audit period. There was a grant for \$180K that was not recorded on the books; the disbursement was recorded as a receivable and the receipt of the grant reimbursement was recorded as a reduction of the receivable. The revenue and expense were not recorded on the books. Revenues received and disbursements for the Asset sharing fund were run through fund balance rather than being recorded on the books.

Recommendation: The auditors recommend that all transactions be recorded on the books that affect the current accounting period.

Response: The Administration has been made aware that grants and the taxes related to the TIF was not a budgeted item to show the revenue and expenditure for a particular calendar year. This item has been corrected and all taxes related to the TIF are recorded as a liability and is budgeted as a separate fund. Grants are also currently being recorded as a liability and revenue (reimbursement) and expenditures are being recorded in each appropriate fund (i.e. CY 2014 Capital Improvement).

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material

weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This information is intended solely for the use of the Audit/Ways & Means Committee, Board of Alderpersons, and management of the City of Dellwood and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

CRWilliams & Associates LLC

February 18, 2014

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City of Dellwood, Missouri
FOLLOW-UP ON PRIOR AUDIT FINDINGS FOR AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by Dellwood on the applicable findings in the prior audit report issued by the independent auditor for the year ended December 31, 2011.

2009-2 Finding: Computerized Accounts Payable System should be Utilized - unresolved

2009-3 Finding: Organization Planning - incomplete

2009-4 Finding: Indirect Cost Allocation Plan - unresolved

2009-5 Finding: Lack of Written Accounting and Internal Control Procedures - unresolved

2009-6 Finding: Obsolete Inventory, Inventory Verification Undocumented and Inventory not Reconciled to Financial Statements – unresolved

2011-1 Finding: Budgets are not Developed Consistent with Financial Statement Reporting - unresolved

2011-2 Finding: Budgets are neither Revised nor Authorized to Make Line Item Budget Changes - unresolved

Significant Control Deficiencies

2011-3 Finding: Special Revenue Fund Transactions Processing is not Reflected - unresolved

2011-4 Finding: TIF Transactions Processing is not Reflected - unresolved

Material Weaknesses

2009-10 Finding: Schedule of Fixed Assets Completion - unresolved

2009-17 Finding: Multiple Transactions and Accounting Errors Associated with Processing TIF Transactions - unresolved