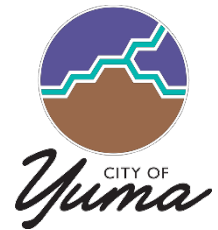


SPECIAL QUARTERLY FINANCIAL BRIEFING

FY 2022 QUARTER 3.5

FY 2021 Audit Update



May 17, 2022

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Moving Forward to FY 2022 and FY 2023 20

The format of this presentation is intended to serve as both a work session presentation and Quarterly Report Document.

All data may not be addressed during the presentation. Inquiries are welcomed during and after the work session.

The Annual Audit Packet includes:

- Annual Comprehensive Financial Report (ACFR)
 - Federal Single Audit (OMB A-133)
 - Annual Expenditure Limitation Report (AELR)
 - Highway User Revenue Fund (HURF) compliance letter
 - Communication to those Charged with Governance
-

FY 2021 was a good year:

- Many inspiring things transpired in preparing for the audit
- Stronger than ever financial position
- City caught-up on vital compliance reporting
- Should be overshadowed by findings:
 - This document is intended to review and highlight the more alarming findings; and
 - Demonstrate corrective actions that will remediate findings and ensure they do not reoccur

New to Yuma

- New State law: Auditor Presents results of the audit
- Single audit reviewed in open session (includes findings)
- Planned do review reports in open session for FY 2021 and Auditor in FY 2022
- New State law moving up a year.

When a Finding is Known

- Contact department's directors
- Develop a Correction Action Plan (CAP)
- Fix / Implement CAP before the audit is complete
- Train all applicable staff
- Define expectations and importance of CAP
- Communicate CAP:
 - After audit is complete and
 - Progress until CAP is completed
- Monitor CAP to make sure finding does not recur
- Discipline per HR Policy if warranted

Success of Audit

- Not just Finance Department
- Organization-wide Responsibility
- Proper function of systems:
 - Financial Suite (technology)
 - Procedures (staff)
- Proper and adequate training and execution of duties of all staff involved

Themes Addressed FY 2021

- Communication
- Cash
- Continuity

Audit Ready

- Entire Acct. Division called upon:
 - Catch up reconciliations, close the year, and **now stay** current each month (not after the year ends)
 - Learn new processes and accounting techniques, conduct research and add automation
- This acquired knowledge new confidence is ensuring continuity and building a sustainable system
- Thank you to all staff who exhibited dedication, effort and excellence in ways that aren't reflected in audit reports; this team is making completion of the June 30, 2021 possible
- They're onward to June 30, 2022

Better than Expected

- Annual Comprehensive Financial Report (ACFR) – formerly CAFR
 - Unqualified (“Clean”) Opinion
- Annual Expenditure Limitation Report (AELR)
- Up-to-date with
 - YABC Audits: 2 years behind
 - Other compliance reports back logged
- Completed by March 31, 2022
- Lower quantity(#) of Audit Findings

Met Expectations

- Federal Single Audit (Grants)
- Audit Findings and Corrective Action Plan (CAP)
- Completed by 9/30/2022

“Staff Turnover”

Departures in FY 2020 & FY 2021:

- Acct. Mngr./Asst. Dir.= Q4 FY 2020
- Director = Q3 FY 2021
- Many others in FY 2020 (Retired)

New Hires in FY 2022:

- Director = Q1 FY 2022
- Acct. Mngr./Asst. Dir. = Q3 FY 2022
- Acting City Admin. = Q2 FY 2022

Finding 1: Lack of or not Following Controls

Finding 1: Lack of or not Following Controls

Finding Number: FS-2021-001

Repeat Finding: No

Type of Finding: Material Weakness

Description: Internal Controls Over Cash

Information
from page 10

CONDITION

Monthly cash reconciliations were not performed timely throughout the fiscal year and included unresolved reconciling items.

EFFECT

The City may not be able to effectively manage its finances and is at risk of undetected misstatements in the accounting records if complete cash reconciliations are not performed timely and accurately. The untimely reconciliations also resulted in a significant delay in the preparation of the year end financial statements. Audit adjustments were necessary to properly state the City's financial statements.

CAUSE

The combination of the City experiencing turnover in key accounting positions during 2020 and 2021, covering for staffing shortages, and lack of an advanced accounting training program or continuity planning caused significant delays in reconciliations.

RECOMMENDATION

The City should design and implement effective internal controls and procedures that ensure the general ledger and financial statements are free from potential misstatements. Specifically, the City should ensure that cash balances are reconciled timely on a monthly basis.

Finding 1: Lack of or not Following Controls

Finding Number: FS-2021-001

Repeat Finding: No

Type of Finding: Material Weakness

Description: Internal Controls Over Cash

Information
from page 10

CONTEXT

During the review of internal controls over cash, the following deficiencies were noted:

A

- Cash reconciliations for the primary checking and payroll bank accounts for July 2020 through June 2021 were not started until October 2021 and not completed until January and March 2022, respectively.

B

- The payroll bank account had carried an unresolved reconciling item of \$760,000 from November 2018.

C

- Departments outside of finance do not timely process revenue collection batches or mistakenly double count cash collections in the general ledger.

D

- During the annual audit of non-finance department cash registers, change funds and petty cash for fiscal year 2020-21, the City determined that approximately \$22,000 was missing. The City had not conducted a cash on-hand audit since fiscal year end 2018-19.

Finding 1: Corrective Action (CAP)

Finding Number: FS-2021-001

Contact Person: Douglas W. Allen, CPA

Anticipated Completion Date: Cash Handling November 30, 2021; Reconciliations May 30, 2022

Planned Corrective Action: Prepare and monitor a detailed Corrective Action Plan that is communicated quarterly at City Council meetings that includes, but not limited to the following:

Information
from page 15

D

Cash Handling:

- Eliminated opportunities for missing cash to be undetected for an extended period of time
- Reinforced current policies and procedures, including dual control
- Enhanced procedures and trained all staff that handles cash
- Closed all petty cash boxes and ended the program
- Significantly reduced cash on-hand for cash registers and change funds
- Conducting random cash audits during the fiscal year

A

Reconciliations:

- Require accounting to be involved when the City is bringing on a new process, application or cash point before it is implemented and operational and test impacts on reconciliations
- B
- Automate the labor intensive reconciliations as much as possible
 - Train accounting staff for all reconciliations and complex accounting transactions
- C
- Catch up and maintain reconciliations timely and allow for adequate review
 - Require all departments to process revenue batches weekly
 - Include reconciliation progress in performance evaluations
 - Move to ACH for all payroll and employee reimbursements and offer the option for vendors and service providers

Finding 1: Supplemental (CAP)

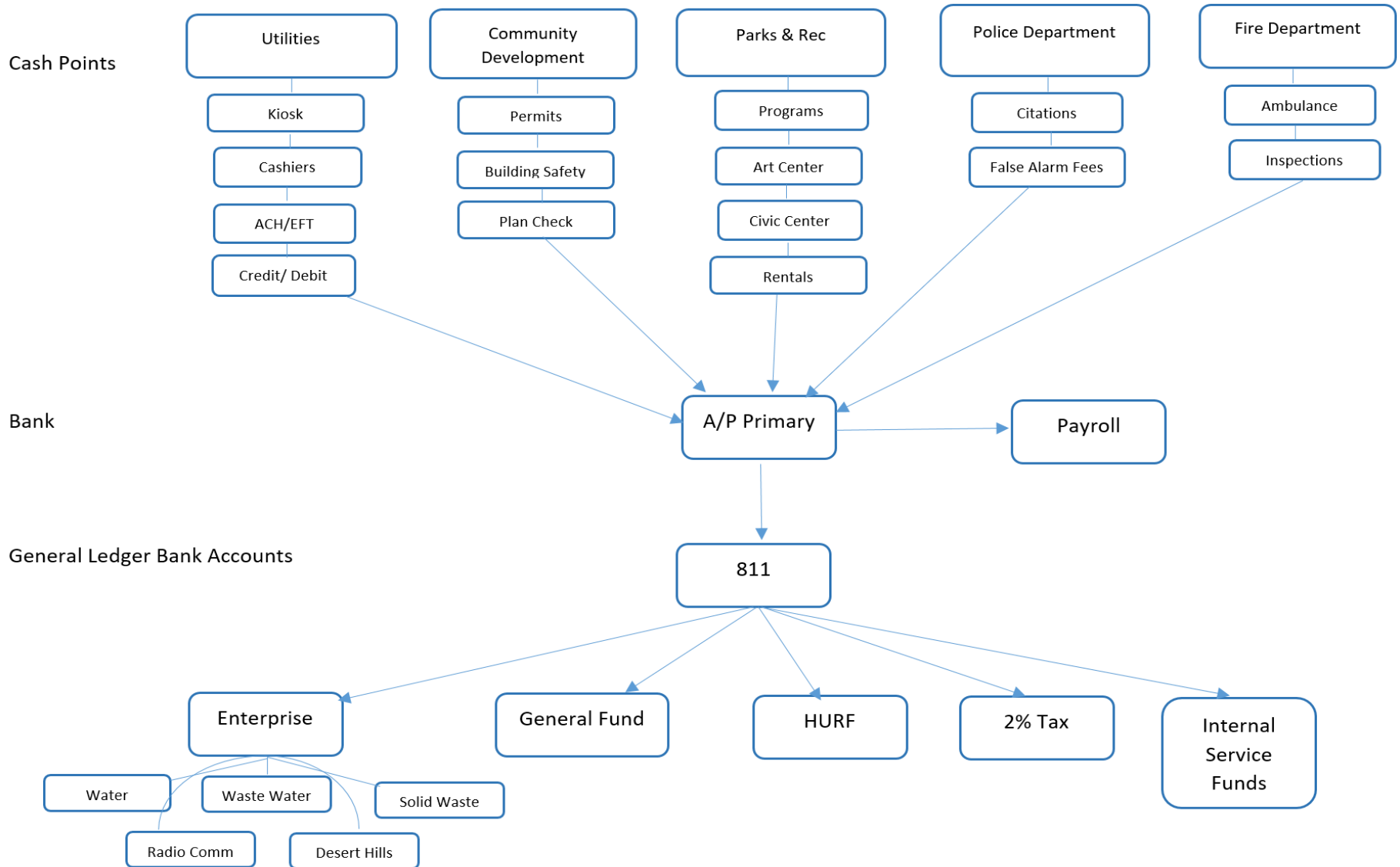
D Cash Handling

- Cash is a highly liquid assets
- Design controls to minimize opportunity for losing cash (by accident or deliberate)
- Met with all department directors
- Met with all managers with cash in their operations
- Reinforced procedure (AR16)
- Provided training for all cash handling staff
- Eliminated all petty cash
- Reducing the number of cash drawers and change funds 48%
- Moving to ACH (direct deposit)
 - Now: Vendors & service providers can opt in for direct deposit
 - Soon: Employees expense Reimb.

A Reconciliations

- System is overly complex
- Reconciliations are extensively labor intensive
- EPR is at end of life and will be replaced
- Changes with every new cash point
- But, has been semi-automated since November 2021

Finding 1: Supplemental (Cash Reconciliation)



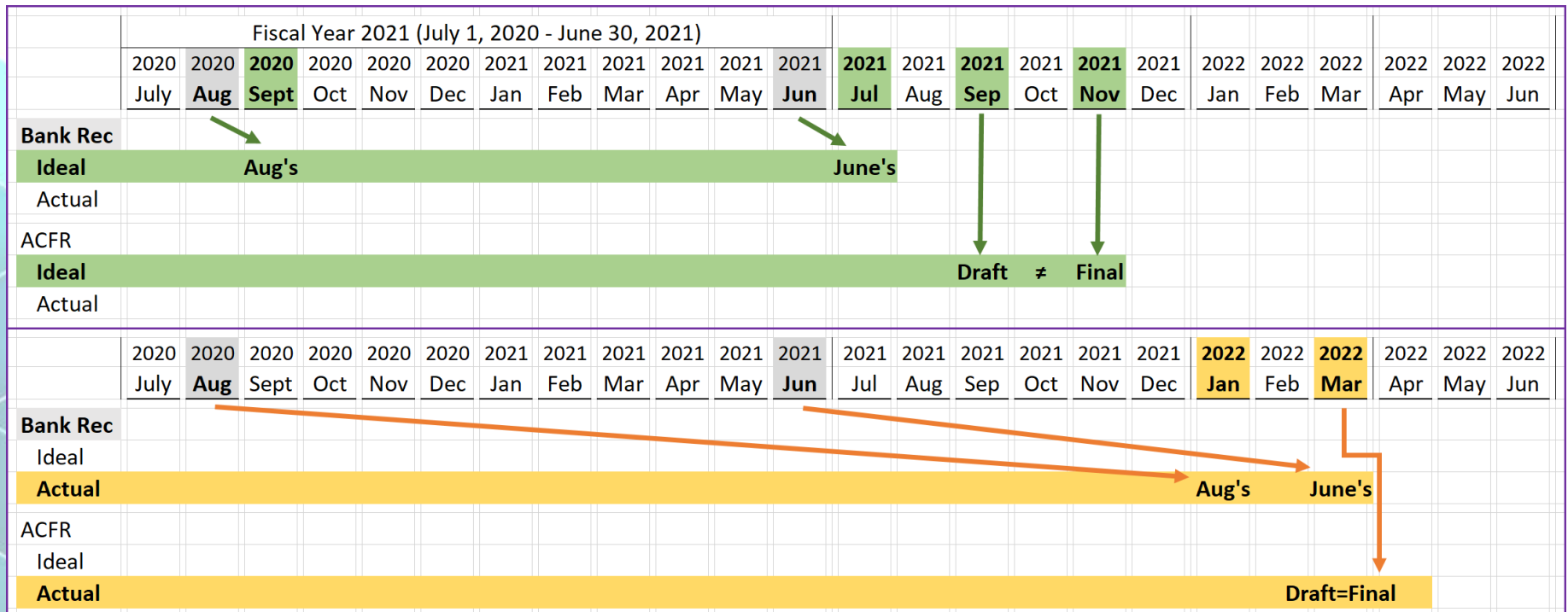
Finding 1: Supplemental (CAP Formats)

Corrective Action Plan (CAP)

- Minimum actions to ensure each finding will not recur, including:
 - Criteria surrounding the finding
 - Actions taken (or to take) to avoid recurrence, whom resp.

Transparency and Clarity

- Graphics for better understanding
- Updates on the CAP with the Quarterly Financial Update
- Single Audits and Quarterly posted on webpage



Finding 1: Supplemental (CAP)

B

\$760,000 carried from 2018

- Identified during FY 2021 cash reconciliations
- Obligations double booked (“found cash”)
- Cash brought back to General Fund for general operations

C

Non-Finance Dept Rev.

- Assisting department with process
- Independent validation

Finding 2: Reporting Data and Recurring Findings

CAP: Finding 2 & *Prior Years' Recurring Findings*

Finding Number: FS-2019-001

Status: Not corrected, see current year finding FS-2021-002

Finding Number: FS-2021-002

Information
from page 15

Contact Person: Douglas W. Allen, CPA

Anticipated Completion Date: November 23, 2022

Planned Corrective Action: Prepare and monitor a detailed Corrective Action Plan that is communicated quarterly at City Council meetings that includes, but not limited to the following:

- Hired experience and knowledgeable staff to fill the vacated key positions
- Train accounting staff for all reconciliations and complex accounting transactions
- Catch up and maintain reconciliations timely and allow for adequate review
- Reconfigure the financial reporting model to eliminate manual calculations, linking of multiple data files and supplemental data entry
- Include audit readiness and reporting accuracy progress in performance evaluations
- Prepare quarterly financial reports that include up-to-date reconciliations
- Prepare the annual budget like the financial statements will report at year end
- Financial statements are drafted and ready for internal quality control reviews by October 15

GAAP (Books);
GL-NW (Labor);
ACFR + Reports (DB)

Focus on training, quality and accuracy;
Not rely on auditors' to correct data

Finding 2: Reporting Data and Recurring Findings

Finding Number: FS-2021-002

Repeat Finding: Yes, FS-2019-001

Type of Finding: Significant Deficiency

Description: Financial Reporting

CONDITION

Internal controls did not operate as designed to detect errors in the financial statements.

EFFECT

Audit adjustments were necessary to properly state the City's financial statements.

CAUSE

The combination of the City experiencing turnover in key accounting positions during 2020 and 2021, covering for staffing shortages, lack of an advanced accounting training program or continuity planning and delays in cash and other reconciliations resulted in the City not able to complete a thorough review of the financial statement prior to the audit without significantly delaying the audit.

RECOMMENDATION

The City should ensure the financial statements are prepared in accordance with GAAP. Additionally, adequate time should be allocated to complete a thorough review of the financial statements prior to the audit.

Finding 2: Reporting Data and Recurring Findings

18

FY 2021

CONTEXT

The following errors were noted in the City's financial statements:

- Insurance premiums for fiscal year 2020-21 paid in July 2021 were recorded as prepaid items and accounts payable in the Insurance Reserve Fund in the amount of \$963,640.
- Grants receivable and related revenue were overstated by \$249,859. Additionally, a grant receivable for \$81,921 was reversed in the wrong fund by the City.
- Interfund borrowing was not done properly, resulting in adjustments totaling \$465,910.
- The ambulance receivable and related allowance for uncollectibles were overstated by \$823,353 and \$543,215, respectively.
- A receivable for \$116,400 was recorded solely in the Wastewater Fund, rather than being properly allocated between the Water and Wastewater Funds.
- Deferred charges on the refunding bond were not recorded correctly. The following errors were noted:
 - Unamortized premium of \$162,438 was not included in the deferred charges calculation
 - The addition of new deferred charges was recorded twice in the amount of \$73,318.
- Restricted net position was overstated by \$1,853,784 related to unused bond proceeds.
- The calculation for net investment in capital assets for governmental activities did not properly account for capital lease related debt and the deferred gain on refunding bond for a net overstatement of \$296,447.

FY2018

CONTEXT

The following errors were noted in the City's financial statements:

- A new capital lease obligation for \$1,031,836 was not recorded.
- The January 1, 2018 principal and interest payments for the improvement district were reported as a current liability on the balance sheet.
- The accrual for compensated holiday leave in governmental funds was overstated by \$1.0 million, due to the wrong beginning balance being used to prepare the schedules.
- Governmental activities depreciation expense and accumulated depreciation for infrastructure assets was understated by \$6.5 million.
- The bank reconciliations for the City's main operating account were not completed timely. Reconciliations for December 2017 – June 2018 were completed in January 2019. The June 30 year end bank reconciliation contained outstanding checks in the amount of \$629,598 that were subsequently voided in February 2019. Additionally, reconciling items totaling \$179,340 were not resolved.

FY 2019

CONTEXT

The following errors were noted during review of the financial statements:

- The governmental activities current and non-current portion of debt were misclassified by \$30,000.
- The Debt Service Fund reported a negative cash balance of \$11,479.
- Three of the City's bank accounts were not properly reconciled to the general ledger.
- The City has not established a process to record an allowance for doubtful accounts related to the ambulance operations.
- A contingent liability of \$1.0 million was not recorded.
- Negative unavailable revenues of \$341,546 were presented on the Statement of Net Position.
- Intrafund transfers of \$34,615 were not eliminated from the Water Fund.
- The General Fund had an intergovernmental receivable of \$103,018 that was not properly reversed during the year.
- The noncurrent portion related to the compensated absences accrual of \$57,623 was misclassified as a capital lease liability on the Statement of Net Position - Proprietary Funds.
- The value of the land associated with capital contributions was not capitalized.
- Insurance premiums for fiscal year 2019-20 paid in July 2019 were recorded as prepaid items and accounts payable in the Insurance Reserve and Workers Compensations Funds in the amounts of \$787,898 and \$142,573, respectively.
- Grant revenues of \$163,706 received after the period of availability were not properly recorded as unavailable revenue.
- Deferred outflows and expenses related to the City's Police and Fire pension plans were misstated by \$2.3 million.
- The footnote disclosure for capital leases did not include information about the assets capitalized and acquired through the capital lease.
- Interfund borrowing was misclassified on the Statements of Cash Flows as operating activities, rather than noncapital financing.
- The footnote disclosure for future debt service requirements included the interest payments from January 1, 2019. As a result the footnote was overstated by \$3.9 million.
- A city sales tax payment for \$210,370 was recorded in the wrong fiscal year.

Moving Forward to FY 2022 and FY 2023

- Audit Findings will occur and require action
- Unacceptable is when they reoccur
- Change is not just a process, also habits
- After FY 2021 deep dive = clean slate
- Learned importance of continuity

Change Underway

- Management takes these findings and patters very seriously
 - Management knows changes are needed and is addressing
 - All change does not occur overnight;
 - not as quick as a light switch
 - Changing processes and behaviors
-

Recent CAP Additions

- Summer refresher trainings: such as purchasing, timekeeping, budget monitoring.
- Finance Department available to provide cash handling training for non-Finance Department new hires

Gravity & Importance of

- Clarity and Transparency
 - Gaining and Maintaining Trust
 - Timely and accurate reporting
-

Actions in Place

- The CAP presented in the Single Audit and additions outlined in this document are currently in action
- Annually, bring the Audit package to City Council (starting June 2022)
- Finance webpage (June 2)
 - Cleaner, easier to navigate
 - Add Single Audits (multi-years)
 - Add Quarterly Financial Briefings
 - Include CAP progress report in Quarterly Financial Briefings

SPECIAL QUARTERLY FINANCIAL BRIEFING

FY 2022 QUARTER 3.5

FY 2021 Audit Update



May 17, 2022