
***CITY OF UNIVERSITY CITY, MISSOURI
REPORT ON INTERNAL CONTROL
RELATED MATTERS AND
ADVISORY COMMENTS***

JUNE 30, 2011



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To the Honorable Mayor and
Members of the City Council
City of University City, Missouri

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of University City, Missouri (the "City") as of and for the year ended June 30, 2011, 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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.

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.

Our comments concerning internal control and other matters are presented as follows:

- I. Deficiencies Considered to be Material Weaknesses
- II. Deficiencies Considered to be Significant
- III. Other Current Year Matters
- IV. Status of Prior Year Deficiency Considered to be Significant

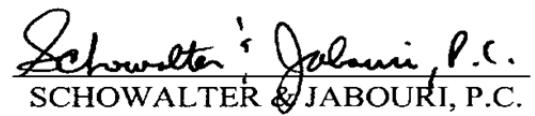
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This communication is intended solely for the information and use of management, the City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to further discuss these matters with you and want to express our sincere appreciation to the staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve the City of University City, Missouri.


Schowalter & Jabolri, P.C.
SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
December 22, 2011

I. DEFICIENCIES CONSIDERED TO BE MATERIAL WEAKNESSES

A. Bank Reconciliation Procedures

During our audit, we noted the following items relating to bank reconciliation procedures:

1. Bank reconciliations contain material reconciling items that need further investigation before they can be cleared.
2. Bank transfers are not made timely and therefore, remain as reconciling items for several months.
3. Bank reconciliations do not appear to be reviewed and approved timely. In addition, no indication of such review was evident on several of the reconciliations selected for review.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. Not reviewing the bank reconciliations on a timely basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind.

We recommend the City implement procedures to ensure:

1. Reconciling items are promptly investigated and resolved.
2. Bank transfers are made timely.
3. Bank reconciliations are reviewed and approved on a timely basis and signed as an indication of approval.

B. Internal Control Over Financial Reporting

During our audit, we noted the following items relating to internal control over financial reporting:

1. The City does not appear to have an effective year-end closing process. During our audit, we noted numerous account balances that were not reconciled. In addition, the auditors of the City identified several discrepancies in the City's account balances that were not initially detected by City personnel. As a result of this situation, significant adjusting journal entries were recorded to correct certain account balances.
2. As in prior years, the City relied on the independent external auditors to assist in the preparation of the financial statements.

Statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit, indicates that auditor assistance with financial statement preparation and identification by the auditor of a significant misstatement in the financial statements is an indicator of a control deficiency that should be communicated in writing to those charged with governance.

We recommend the City implement effective internal controls over financial reporting. The year-end financial records should be adequately reviewed prior to the audit to ensure all material adjustments have been made. In addition, the City should consider implementing a comprehensive year-end closing schedule that indicates who would perform each procedure, who would review each procedure and when completion of each procedure was due and accomplished.

II. DEFICIENCIES CONSIDERED TO BE SIGNIFICANT

A. Accounts Receivable – Segregation of Duties

During our audit, we noted the accounts receivable clerk prepares the sanitation bills, collects monies and posts payments to customer accounts. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected.

We recommend that cash receipts be opened and controlled by a person independent of the person responsible for the accounts receivable subsidiary ledger. The accounts payable clerk could open the mail, endorse the checks, and prepare the deposit slip and daily list of receipts. The cash and deposit slip would then be forwarded to the Senior Accountant or Finance Officer for deposit. The daily list of receipts would be forwarded to the accounts receivable clerk to post to customer's accounts.

B. Allowance for Doubtful Accounts

The allowance for doubtful accounts is not being analyzed periodically. Since the City has a significant number and size of past-due accounts, we recommend that management prepare an analysis of uncollectible accounts at least quarterly. This analysis should consider prior charge-off experience and experience with the customer, as well as other information management may have about the account, such as indications of financial difficulty. Management should adjust the allowance for doubtful accounts after reviewing the analysis of uncollectible accounts and making appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from uncollectible accounts receivable is reflected on the balance sheet.

C. Documentation of Internal Controls

Although the City has their daily accounting procedures documented, information relating to the five components of internal control (risk assessment, control environment, control activities, information and communication and monitoring) has not been documented in such a fashion to permit effective use by management, the Governing Body, cognizant agencies and other parties.

We recommend that the City develop and implement procedures to document the components of internal control. In addition, we recommend studying the COSO internal control guidance and tools as a means to begin the process. Once this documentation is complete, those charged with governance have a responsibility to understand the controls and ensure they are operating effectively.

D. Risk Assessment

During our audit, we noted there is no formal fraud risk assessment in place. Antifraud programs and controls are the policies and procedures put in place by a company to help ensure that management directives are carried out. They are part of the overall system of internal control established to achieve reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We recommend that the City address the risk of fraud occurring by performing a fraud risk assessment to identify, analyze, and manage the risk of asset misappropriation.

III. OTHER CURRENT YEAR MATTERS

A. Payroll – Segregation of Duties

During our audit, we noted a payroll clerk has user permissions that allows payroll master file changes to be made, including pay rate changes. This is a segregation of duties issue, as the person responsible for processing payroll is also able to change the pay rate information.

We recommend system controls be implemented to assure that only specified personnel can make master file changes such as adding or updating the master files. If these duties cannot be segregated, monitoring controls, such as logging and running an audit report of all master file changes, should be implemented. This report can then be periodically reviewed.

B. Computer Controls

One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. Within a computer environment this can be translated to not permitting the same individual to have full access to the computer application (New World) and perform daily accounting/finance activities.

We recommend that Information Technology personnel be responsible for assigning user access to the New World application. Information technology personnel should be prohibited from initiating and/or authorizing “live” transactions required for daily accounting/finance activities. Requests for changes to existing programs (New World), such as user access, should come from authorized users in writing and should be approved by a supervisor to ensure the access is commensurable with the individual’s job responsibilities.

In addition, we recommend that at least annually, the supervisor of each department receive a New World user access report with all the employees in their department and the access that these employees have. The supervisor should complete an annual review and re-authorization of each user’s access privileges.

C. Accounting System

In a prior year, the City began the implementation of a new accounting system. During the current audit, we noted the City is still in the process of training on the new system and thus not all of its features are being fully utilized, specifically, the project management feature and the capital asset feature.

We recommend continued training and a thorough evaluation of the needs of the City be conducted. The training and evaluation should attempt to ensure that the City's financial systems maximize the productivity of its staff and meet the needs of management.

D. Interfund Balance Accounts

Interfund balances (ie. due to/from accounts) are difficult to reconcile because the City has one general ledger account for each fund that does not distinguish the respective payable or receivable fund. Such general grouping makes it challenging to determine the composition and adequacy of the transactions and account balance.

We recommend that interfund activity be segregated into separate general ledger accounts with more descriptive titles for easier identification, evaluation, and analysis.

E. Federal Awards Cash Management

The City receives numerous federal awards that require adherence to stringent federal compliance requirements. One of the compliance requirements is cash management that requires grantees to establish procedures to minimize the time elapsing between the receipt of funds and disbursement. During our audit, we noted one significant federal award draw down in January 2011 that was not spent as of June 30, 2011. The unspent grant monies are properly accounted for as deferred revenue; however, requesting monies in advance of expected disbursements is a violation of the federal cash management compliance requirement.

We recommend the City establish procedures to minimize the time elapsing between the receipt of funds and disbursement.

F. Deposits

During our audit, we noted Library receipts were not remitted to the Finance office in a timely manner. Since cash is so readily subject to error and mishandling, it is imperative to establish effective controls over cash receipts.

We recommend that deposits be remitted daily to the Finance office to improve cash flow and to reduce the risk of loss.

G. Budgetary procedures

During our audit, we noted actual expenditures exceeded those budgeted in two funds. State statutes authorize the City Council to revise a budget for any unforeseen revenue or expenditures that could not be estimated when the original budget was adopted.

We recommend the City refrain from approving expenditures in excess of the budget and amend the budget when unforeseen revenues are received or unforeseen expenditures are incurred.

H. General Accounting Considerations

1. During the year, the City changed the accounting for the solid waste fund from a governmental fund to an enterprise fund; however, the trash transfer station is still accounted for in the governmental internal service fund.

We recommend the City consider accounting for the trash transfer station in the solid waste fund.

2. The University City Library District has historically been included in the City's financial statements as part of the City (primary government). However, we believe the Library District would more accurately be presented in the financial statements as a component unit of the City. The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14, *The Financial Reporting Entity* (GASB 14), as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB 14*.

We recommend, the City review the criteria of a reporting entity as it relates to the University City Library District.

3. The City prepares its annual financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP); however, the City's general ledger is maintained on a budget basis of accounting. The budget basis is consistent with GAAP, except that encumbered amounts are treated as expenditures.

We recommend the City consider adjusting their general ledger to conform to GAAP using period 13.

I. Use a Checklist of Accounting Procedures

In order to ensure that all accounting procedures are performed on a timely basis, we recommend that a comprehensive checklist be prepared. The checklist should cover all procedures that the City determines need to be performed on a periodic basis including, but not limited to, month end procedures such as bank reconciliations, and general ledger account analysis.

J. Fund Balance Policy

In February 2009, the Government Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This standard substantially alters the focus and terminology used for fund balance reporting. The new categories and terminology reflect an innovative approach that focus not on financial resources available for appropriation, but on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

We recommend the City adopt a comprehensive fund balance policy that addresses the following:

- The order in which the City considers restricted, committed, assigned and unassigned amounts to be spent when amounts in more than one fund balance classification are available for a particular purpose
- The decision-making authority and formal action that is required to be taken to establish (or modify or rescind) a commitment of fund balance
- The bodies or persons with the authority to express intended uses of resources that result in assigned fund balance

IV. STATUS OF PRIOR YEAR DEFICIENCY CONSIDERED TO BE SIGNIFICANT

The previous year's auditors reported that material audit adjustments had to be made to correct the City's year-end financial statements. The deficiency cause and effect were that the City did not adequately review the year-end financial records to ensure all material adjustments were made.

Status: The comment noted above has not been implemented and is reported in the current year Section I.B.