

**CITY OF PARKVILLE, MISSOURI**

**REQUIRED COMMUNICATIONS  
AND MANAGEMENT LETTER**

For the Year Ended December 31, 2016

# City of Parkville, Missouri

## Required Communications and Compliance Report For the Year Ended December 31, 2016

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# COCHRAN HEAD VICK & CO., P.C.

& Co

*Certified Public Accountants*

June 13, 2017

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Parkville, Missouri (the City) for the year ended December 31, 2016. 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 letter to you dated January 19, 2017. 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. The City implemented Government Accounting Standards Board (GASB) Statement No. 72 *Fair Value Measurement and Application* in 2016. 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 determining the allowance for doubtful accounts, the estimated historical cost of infrastructure and the related estimated useful lives used in recording depreciation and accumulated depreciation for capital assets, value of land held for redevelopment, and the estimated obligation relating to pension benefits. We evaluated the key factors and assumptions used in developing the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of certain special assessments in Note 7 to the financial statements.

The financial statement disclosures are neutral, consistent and clear.

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### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *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. Management has corrected all such misstatements. The following material misstatements detected as a result of our audit procedures were corrected by management.

- Adjustments and reclassifications to cash of \$21,726
- Adjustment to record accrued interest payable of \$32,844.
- Adjustments and reclassifications to record additional accounts payable of \$27,226.
- Adjustments to record capital assets additions of \$185,859 for governmental activities.
- Adjustment to correct internal transfers of \$178,124.
- Adjustment to increase the allowance for uncollectable sewer receivable \$9,000.

### *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 June 13, 2017.

### *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 Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

We applied certain limited procedures to City's management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios and schedule of employer contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules which accompany the financial statements but are not RSI. 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.

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 of Parkville, Missouri as of and for the year ended December 31, 2016, 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 that are appropriate in the circumstances 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 in the City's internal control described 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.

Management'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 and Accounting – Material Weaknesses**

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 U.S. generally accepted accounting principles. Under our professional standards, we have to assess the City's controls over preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement.

Our audit procedures identified adjustments that were required to properly report certain transactions of the City in accordance with generally accepted accounting principles. These adjustments were not initially identified by the City's internal controls over financial reporting.

We recommend that management review year-end closing procedures to ensure that transactions are properly recorded in accordance with generally accepted accounting principles. In addition, due to the complexities of financial reporting, we recommend that management explore various alternatives for improving the controls over financial reporting including the use of governmental accounting standards, reference guides and continuing education and training courses.

Management's Response

Staff and the Board of Aldermen responded to the recommendation and, since that time, have increased the budget and time available for professional development for finance staff. The Finance/Human Resources Director attended the Government Finance Officer of Missouri (GFOA) Winter Seminar and attended sessions including Budgeting Tips and Auditing and Financial Reporting. The City Treasurer attended the GFOA Spring Conference and attended classes including Financial and Personnel Policies, Revenue Forecasting in Uncertain Times, Investments and Governmental Audits.

With regard to audit adjustments, in the past staff routinely made the adjustments following consultation with the auditor during the audit review process. Staff has done a better job of making sure accounting policies and procedures are administered throughout the year instead of all at year-end. For example, a capital asset acquisition spreadsheet has been created and will be maintained throughout the year. Staff has requested and the auditor has agreed to provide a listing of year-end procedures to be done prior to the commencement of audit field work. Staff will use all available reference guides to provide a checklist of tasks to ensure accurate and timely financial reporting Staff understands that the City is ultimately accountable for the accuracy of the financial statements and will endeavor to increase the in-house knowledge of governmental accounting standards to improve this reporting process in the future.

**Municipal Court**

The Municipal Court collects fines and court costs and deposits those funds into a bank account. The monies collected are to be distributed to the State of Missouri, the City of Parkville or other agencies in accordance with State Statute and City Ordinances. It was noted during the audit that the bank account carried an account balance of \$12,248 as of December 31, 2016. The Court could not provide a detail of the amounts owed to the entities described above for the amount remaining in the fund. We recommend that the City reconcile the remaining amount in the fund to ensure that fines and court costs collected are appropriately distributed in accordance with state and municipal regulations.

Management's Response

Court and finance staff continue to research the account balance to determine the source and the appropriate distribution of these funds. Staff recommends the account balance be distributed to regular court accounts (Synergy House, Sheriffs Fund, etc.) on a percentage basis. Court staff and Finance staff currently reconcile bank accounts manually each month jointly.

**Other Comments and Recommendations**

**Budgeting**

For the year ended December 31, 2016, actual expenditures exceeded budgeted appropriations in the following fund:

<u>Fund</u>	<u>Expenditures in Excess of Budget Appropriations</u>
Parks Donations	\$ 1,384

We recommend that management review its processes and procedures for monitoring and amending the budget.

Management's Response

In above instance of expenditures exceeding budgeted appropriations, adequate funds were available for the purchase, and the purchase was authorized by the appropriate authority in accordance with the City's adopted purchasing policy. Staff failed to make the recommended budget amendments but will endeavor to do so for all future occasions where expenditures exceed budgeted appropriations. The expenditure in the Parks Donation Fund resulted from timing of costs associated with the donation of a park bench. The donation was received in 2015, but the expenditure was recorded in 2016.

## **Sewer Allowance for Doubtful Accounts**

During the audit we noted that the City was unable to provide an aged accounts receivable listing for the sewer accounts receivables as of the fiscal year end. It was indicated that the City cannot generate a historical aged accounts receivable trial balance from the utility billing system once that date has passed. The City does maintain a monthly delinquent report which consisted of several outstanding balances that were deemed to be uncollectible. We recommend that management periodically analyze and review the receivable accounts to identify accounts that are uncollectible. We also suggest that the City review their collection efforts and monitoring of slow paying or past due accounts to improve overall collections.

### **Management's Response**

The production of an aged accounts receivable will be a part of the year-end checklist going forward and staff will be able to provide the requested listing to the auditors. Staff is already analyzing and reviewing the receivable accounts on a weekly basis to identify all problematic accounts and identify accounts that are uncollectible. The City has entered into an agreement with a third-party collection agency in an attempt to collect on accounts deemed uncollectible by the City.

## **Future Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has recently issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB Statement 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the fiscal year beginning on January 1, 2018.
- GASB Statement 80 – *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 81 – *Irrevocable Split-Interest Agreements*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year beginning on January 1, 2017.
- GASB Statement 83 – *Certain Asset Retirement Obligations*, effective for the fiscal year beginning on January 1, 2019.
- GASB Statement 84 – *Fiduciary Activities*, effective for the fiscal year beginning on January 1, 2019.
- GASB Statement 85 – *Omnibus 2017*, effective for the fiscal year beginning on January 1, 2018.
- GASB Statement 86 – *Certain Debt Extinguishment Issues*, effective for the fiscal year beginning on January 1, 2018.

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

### **Management's Response**

City staff will review all recent and upcoming GASB statements and ensure that any required changes are incorporated in future financial reporting.

## **PRIOR YEAR COMMENTS**

In the prior year, we issued certain comments and recommendations in regard to the City's accounting, internal control and financial reporting issues. The following table summarizes the nature of these comments, the significance of the comments as described in the prior year's reports, and our determination of the status of those comments.

Prior Year Comment Description	Significance	Current Year Status
Financial Reporting	We identified several adjustments that were required to properly report certain transactions in accordance with generally accepted accounting principles. Additionally, a detailed listing of governmental infrastructure capital assets was not being maintained by the City. We recommended that management review year-end closing procedures to ensure that transactions are properly recorded and approved in accordance with generally accepted accounting principles.	While improvements were made in the year end closing processes, the comment is repeated as we identified adjustments that were required to properly report certain transactions in accordance with generally accepted accounting principles. The City is maintaining a detailed listing of governmental infrastructure capital assets.
Budgeting	During our audit we noted funds where actual expenditures exceeded budgeted appropriations. We recommended that management review its processes and procedures for monitoring and amending the budget.	Comment repeated
Sewer Allowance for Doubtful Accounts	During our audit we noted that the City's sewer accounts receivable consisted of several outstanding balances that were deemed uncollectible. We recommended that management periodically analyze and review the receivable accounts to identify accounts that are uncollectible. We also suggested that the City review their collection efforts and monitoring of slow paying or past due accounts to improve all collections.	Comment repeated
Municipal Court	During our audit we noted that the bank account for the Municipal Court fines and court costs was not reconciled on a timely basis and carried a balance. The balance is owed to various agencies based on State Statute and City Ordinances but details of the amounts owed to each agency was not provided. We recommend that the City reconcile the remaining amount in the fund to ensure that fines and court costs collected are appropriately distributed in accordance with state and municipal regulations.	The City reconciled the bank account on a more timely basis. We continue to recommend that the City research the account balance to determine the source and the appropriate distribution of these funds.
Administrative and Support Services	During our audit we noted that the City did not have support for the amount of fees charged to the Sewer Fund for the administrative and support services provided by the General Fund. We recommend that management implement additional procedures to better document and support the administrative and support services fees paid to the General Fund.	Recommendation implemented
Future Accounting Pronouncements	We recommended that the City review those standards to determine the impact they may have on the City's financial reporting.	The City implemented all required new GASB pronouncements in the current year. Only GASB 72 Fair Value Measurement and Application had an impact on the City financial statements in the current year.

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

*Cochran Head Vick Ho, P.C.*

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COMPLIANCE REPORT

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*Certified Public Accountants*

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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***

To the Honorable Mayor and Board of Aldermen  
City of Parkville, 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, each major fund, and the aggregate remaining fund information of the City of Parkville, Missouri (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 13, 2017.

### **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, 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.

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 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 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-01 to be a material weakness.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## **The City's Response to the Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cezhan Hood V. Chitt, P.C.*

Kansas City, Missouri  
June 13, 2017

**City of Parkville, Missouri**  
**Schedule of Findings and Responses**  
**For the Year December 31, 2016**

**2016-01 Financial Reporting and Accounting**

Condition

Our audit procedures identified adjustments that were required to properly report certain transactions of the City in accordance with generally accepted accounting principles. These adjustments were not initially identified by the City's internal controls over financial reporting.

Criteria

Internal controls should be in place to ensure year-end balances and external financial reporting conforms to generally accepted accounting principles.

Cause

Year-end procedures were not sufficient to identify the adjustments noted above in a timely manner.

Effect

Potential exists for material misstatements to the financial statements.

Recommendation

We recommend that management review year-end closing procedures to ensure that transactions are properly recorded in accordance with generally accepted accounting principles. Additionally, due to the complexities of financial reporting, we recommend that management continue exploring various alternatives for improving the controls over financial reporting including the use of governmental accounting standards, reference guides and continuing education and training courses.

Management's Response/Corrective Action

Staff and the Board of Aldermen responded to the recommendation and, since that time, have increased the budget and time available for professional development for finance staff. The Finance/Human Resources Director attended the Government Finance Officer of Missouri (GFOA) Winter Seminar and attended sessions including Budgeting Tips and Auditing and Financial Reporting. The City Treasurer attended the GFOA Spring Conference and attended classes including Financial and Personnel Policies, Revenue Forecasting in Uncertain Times, Investments and Governmental Audits.

With regard to audit adjustments, in the past staff routinely made the adjustments following consultation with the auditor during the audit review process. Staff has done a better job of making sure accounting policies and procedures are administered throughout the year instead of all at year-end. For example, a capital asset acquisition spreadsheet has been created and will be maintained throughout the year. Staff has requested and the auditor has agreed to provide a listing of year-end procedures to be done prior to the commencement of audit field work. Staff will use all available reference guides to provide a checklist of tasks to ensure accurate and timely financial reporting. Staff understands that the City is ultimately accountable for the accuracy of the financial statements and will endeavor to increase the in-house knowledge of governmental accounting standards to improve this reporting process in the future.