

CITY OF PARKVILLE, MISSOURI

**REQUIRED COMMUNICATIONS AND
MANAGEMENT LETTER**

For the Year Ended December 31, 2021

City of Parkville, Missouri
Required Communications and Management Letter
For the Year Ended December 31, 2021

Table of Contents

	<u>Page Number</u>
Required Communications and Management Letter	1-6



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, 2021. 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 18, 2022. 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. No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered 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, 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.

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

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. We assisted with certain adjustments necessary in recording the crossover refunding of the Brush Creek and Brink Meyer refunding bonds, FEMA grant receivables, and depreciation. The following material misstatements were detected as a result of our audit procedures and were corrected by management.

- Adjustment to the project cash account as proceeds were transferred to the general account for project costs \$1,361,724.
- Adjustments to record issuance of \$2,985,000 2021A Certificates of Participation and associated amounts; related transfer and retirement of the lease purchase agreement of \$1,323,801.
- Adjustment to record approved transfers from the ARPA Fund \$275,000.
- Adjustment to record \$447,594 unearned revenue for the remaining amount of unspent ARPA funds.
- Adjustment to record Route 9 grants receivable of \$2,078,005 and related deferred inflow of \$767,086.
- Adjustment to pooled cash of \$99,673 related to certain uncleared amounts.

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 September 16, 2022.

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 the City's management's discussion and analysis and other required supplementary information (RSI) as listed in the table of contents which are required to supplement 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, 2021, 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 deficiency in the City's internal control described under Financial Reporting to be a material weakness.

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 – Material Weakness

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. These controls should allow management or employees to prevent, detect, and correct financial statements on a timely basis.

Our audit procedures identified adjustments that was required to properly report a certain transaction of the City in accordance with generally accepted accounting principles. This adjustment was 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 agrees with the adjustments recommended by our auditors. These were unique transactions related to crossover refinancing of the 2021A Certificates of Participation and the subsequent retirement of the Lease Purchase Agreement. Additionally, funds received in 2021 from the American Rescue Plan Act (ARPA) Fund were properly recorded and expended. But a transfer entry and unearned revenue entry were not made. ARPA funds received in 2022 will be entered correctly and fully. The failure to record the Route 9 grants receivable was a timing issue as funds were anticipated to be received in 2021.

Staff will do a better job of working with our auditors during the year as questions arise that they might be able to provide direction on. Staff will continue to strive for no audit adjustments in the future. 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. To that end, City staff will be scheduling periodic meetings with our outside audit firm personnel throughout the year as questions arise to be sure all unusual events are accounted for correctly initially.

The Board of Aldermen approved a budget that increased funding and time available for professional development for finance staff. Management has made the decision to split the Finance/Human Resources Director position into two positions. The City has hired an interim Finance Director to assess City needs and assist in the hiring of a new dedicated Finance Director. This change should bring about overall improvements in processes and procedures throughout the Finance Department and make for smoother, more efficient financial audits moving forward.

Grants Management

The City has a number of capital projects funded by grant agreements. Under these agreements, the City will incur and pay project related costs upfront and then request reimbursement for eligible costs from the Grantee. During our audit, we noted that there was a time lag between when the costs were incurred and paid and when the City requested reimbursement from the Grantee. Such a time lag could create cash flow concerns for the City. We recommend that the City review its grant reimbursement policies and procedures to more timely request reimbursements in accordance with grant agreement.

Management's Response

In 2021, the City had several projects that required Grant Management including two Route 9 improvement projects. Staff was working with SEMA staff to finalize many of the FEMA project from the 2019 flooding. Public Works staff is small and is tasked with handling daily operations / maintenance tasks as well as annual CIP project management. As the City grows, so do the demands on Public Works. In an effort to maintain the standard level of service to the community, staff was spread thin with the additional work required for managing these projects. In hindsight, staff realizes that additional staff resources through temporary staff or on-call contracts could have been utilized to assist with these activities.

The City is aware of the need to improve on the time lag between the expenditure of capital project funds and the reimbursement of eligible costs. The Public Works Director and the new Finance Director will work in tandem to institute new processes to streamline the request and receipt of funds to reimburse the City as timely as possible after the City has expended the funds.

Cyber Security

Organizations are encountering more cyberattacks than in previous years partly due to the migration of working remote. One example of a cyberattack is through phishing emails asking employees to click on a link which deploys malware to encrypt the Organization's system. We recommend that the City continue reviewing current policies and procedures related to cyber security. Procedures should include training employees on how to identify phishing emails and what to do if one is suspected, review cyber security protocols for key systems, test back-up systems with key data, and developing an incident response plan if an attack occurs.

Management's Response

The City is committed to securing its computer network from the ever present cyber security threats. The City uses security strategies that include network structure, virus/malware protection, ongoing employee phishing training, daily backup and other security measures to guard the network against intrusion.

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 May 2021, in response to COVID-19 pandemic, GASB issued Statement No. 95 - *Postponement of the Effective Dates of Certain Authoritative Guidance*. The following statements reflect the revised effective dates:

- GASB Statement 87 – *Leases*, effective for fiscal year beginning January 1, 2022.
- GASB Statement No. 91 – *Conduit Debt Obligations*, effective for the fiscal year beginning January 1, 2022.
- GASB Statement No. 92 – *Omnibus 2021*, effective for the fiscal year beginning January 1, 2022.
- GASB Statement No. 93 - *Replacement of Interbank Offered Rates* effective for the fiscal year beginning January 1, 2022.
- GASB Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year beginning January 1, 2023.
- GASB Statement No. 96 *Subscription-Based Information Technology Arrangements*, effective for the fiscal year beginning January 1, 2023.
- GASB Statement No. 97 *Certain Component Unit Criteria, and Accounting for IRS Code Section 457 Deferred Compensation Plans*, effective for the fiscal year beginning January 1, 2022.
- GASB Statement 99 *Omnibus 2022*, generally effective for fiscal year beginning January 1, 2023.
- GASB Statement 100 *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*, effective for fiscal year beginning January 1, 2024.
- GASB Statement 101 *Compensated Absences*, effective for fiscal year beginning January 1, 2024.

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 adjustments that were required to properly report certain transactions in accordance with generally accepted accounting principles. 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.	Comment is repeated as material adjustments were required to properly report certain transactions in accordance with generally accepted accounting principles were identified.
Budgeting	During the audit we noted that the City did not formally amend the budget for the proceeds from the issuance of the \$3,995,000 Series 2020A, Taxable Neighborhood Improvement District Limited General Obligation Refunding Bonds (Brush Creek Drainage Area Neighborhood Improvement Project) Bonds and the \$2,730,000 Series 2020B, Taxable Neighborhood Improvement District Limited General Obligation Refunding Bonds (Brink Meyer Road Neighborhood Improvement Project) Bonds (2020B bonds). As a result, the Brush Creek and Brink Meyer debt service funds expenditures exceeded budget appropriations. We recommended that management review its processes and procedures to include formally amending the budget when these types of transactions are approved by the Board of Aldermen.	There were no instances in which actual expenditures exceeded budgeted appropriations in 2021.

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

Hood and Associates CPAs PC

Kansas City, Missouri
September 16, 2022