

# Diehl Banwart Bolton

*Certified Public Accountants P.A.*

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April 30, 2014

## COMMUNICATIONS WITH THE MAYOR AND CITY COUNCIL

The Mayor and City Council  
City of La Cygne, Kansas  
La Cygne, Kansas 66040

We have audited the regulatory basis financial statements of the City of La Cygne, Kansas for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 April 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### INTERNAL CONTROL ISSUES

In planning and performing our audit of the financial statement of the City of La Cygne, Kansas as of and for the year ended December 31, 2013, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, 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 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 statement will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the City's internal control to be significant deficiencies:



### PREPARATION OF FINANCIAL STATEMENTS

It is the responsibility of management to prepare the City's financial statements and the related notes to the financial statements. It is not uncommon for our firm to assist entities in the preparation of their financial statements because they lack personnel resources with appropriate technical skills, training and experience. We sometimes prepare significant adjustments as well as assist the City to determine which disclosures are required. Under our professional standards, we are allowed to perform these services as part of our audit. However, we are required to report them as significant deficiencies in internal control. Simply put, our standards require us to inform the City Council and management in writing if your personnel are not quite capable of preparing the financial statements and all the required disclosures.

It is important to note that relying on us, as your auditor, to identify material misstatements in your financial statements and correct them before the audited financial statements are issued, does not eliminate a significant deficiency or material weakness. Simply stated, if you are unable to prepare the financial statements and all the required disclosures without auditor assistance we are required to report this under our professional standards.

### SEPARATION OF DUTIES

An internal control structure is, quite simply, the procedures in effect to insure that funds are properly received, disbursed, and recorded in the accounting records. The essential control feature in a well designed internal control structure is to provide for adequate separation of duties. This means that, to the extent possible, the following functions should be performed by separate individuals:

- Authorization of transactions
- Recording or accounting for transactions
- Custody of or control over the assets
- Reconciliation or review of the work performed

A weakness in the control structure occurs when one person can potentially be involved in all of the accounting activities such as preparation of bills, maintenance of accounting records, and receipts of cash. Although there are two full time employees working in City Hall – the City Clerk and the Treasurer – there are times in which one of these persons have access to two or more of the accounting functions that should be separated. There was no indication that funds are missing or have been misplaced. We are simply required by our professional standards to notify the City Council whenever there are situations where there can be a lack of separation of duties and when one person can be involved in all of the accounting processes. For a City the size of La Cygne, it is almost impossible to eliminate all circumstances where there is a lack of separation of duties. Accordingly, the Council should closely monitor the financial reports provided to the Council including the list of bills paid each month. In addition, the City should continue to maintain a fidelity bond on the Clerk and Treasurer.

We would like to point out that the problems of separation of duties are not unique to your City or to most small cities, school districts, or other not-for-profit organizations, which we audit. As stated previously we found no evidence of any wrongdoing or misappropriation of City funds. We have the responsibility to inform the Council whenever there are inherent weaknesses in internal controls over City funds.

### CITY COUNCIL MINUTES AS A PART OF INTERNAL CONTROL

Adequate review by the City council is an important part of the internal control structure of the City. Minutes of meetings of the City Council represent the permanent official record of activities for the City. The City Council can take an active part in assuring that the City's financial statements properly reflect the financial activity of the City. The minutes should indicate important actions taken by the Council, including evidence of the Council's oversight of financial activity. We recommend that the Council take extra care to insure that minutes are accurate and identify all significant actions taken by the Council members at the meetings, and include the following items:



- Review of all financial activity of the City, including the financial statements and related schedules.
- Review of delinquent utility accounts. The City should authorize the write off of uncollected accounts after the meter has been turned off or pulled.
- Approval of all bills payable or paid by the City. The Council at the next meeting should still approve these bills after payment.
- Significant other revenue items received or expected to be received should be identified in the minutes, including new benefit units deposits, grants, reimbursements from the State, or insurance payments.

Based on our review of the Council minutes, you appear to be already doing these procedures. We are simply emphasizing the importance of the Council performing these actions and documenting such actions in the monthly minutes.

## **OTHER REQUIRED COMMUNICATIONS**

### **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 2013. We noted no transactions entered into by the governmental unit 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. The City's financial statements are prepared using the regulatory basis of accounting. There are no estimates in the City's financial statements inasmuch as revenues are recorded when cash is actually received and expenses are recorded when paid in cash and include accounts payable for goods or services received but not paid for until after the current year end encumbrances.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant 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 trivial, and communicate them to the appropriate level of management. These adjustments are summarized in the attached "Journal Entries for 2013 to be posted in 2014". Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as 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 April 30, 2014.

*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 governmental unit'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 Matters*

With respect to the supplementary information accompanying the financial statement, 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 statement. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

*Other Audit Findings or Issues*

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

This information is intended solely for the use of the Mayor, City Council, and management of the City of La Cygne, Kansas and it not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

DIEHL, BANWART, BOLTON, CPAs, PA



Terence L. Sercer, CPA



CITY OF LA CYGNE, KANSAS  
 Schedule of Audit Adjustments  
 2013 Audit Adjustments.  
 December 31, 2013

PREPARED BY \_\_\_\_\_

Date:	30-Apr-14
Time:	04:23 PM

REVIEWED BY \_\_\_\_\_

FUND	Account	DEBIT	CREDIT
	G1		
GENERAL	Unencumbered Cash	8,466.68	
	Expenditures		8,466.68
SPECIAL HIGHWAY	Unencumbered Cash	0.00	
	Expenditures		0.00
SPECIAL PARK & POOL	Unencumbered Cash	212.63	
	Expenditures		212.63
SPECIAL PARK AND REC	Unencumbered Cash	7.04	
	Expenditures		7.04
OAK LAWN CEMETERY	Unencumbered Cash	0.00	
	Expenditures		0.00
EMPLOYEE BENEFIT	Unencumbered Cash	0.00	
	Expenditures		0.00
GAS UTILITY	Unencumbered Cash	84,255.11	
	Expenditures		84,255.11
WATER UTILITY	Unencumbered Cash	17,659.99	
	Expenditures		17,659.99
SEWER UTILITY	Unencumbered Cash	1,013.31	
	Expenditures		1,013.31
SOLID WASTE UTILITY	Unencumbered Cash	779.38	
	Expenditures		779.38
CLEARING FUND	Unencumbered Cash	2,144.44	
	Expenditures		2,144.44
ENERGY ASSISTANCE	Unencumbered Cash	4,085.82	
	Expenditures		4,085.82
		<u>93,077.16</u>	<u>93,077.16</u>

TO REVERSE 2012 PAYABLES AND ENCUMBRANCES RECORDED IN 2012 & PAID IN 2013.

CITY OF LA CYGNE, KANSAS  
 Schedule of Audit Adjustments  
 2013 Audit Adjustments.  
 December 31, 2013

PREPARED BY \_\_\_\_\_

Date:	30-Apr-14
Time:	04:23 PM

REVIEWED BY \_\_\_\_\_

FUND	Account	DEBIT	CREDIT
	G2		
GENERAL	Unencumbered Cash	10,952.48	
	Expenditures		10,952.48
SPECIAL HIGHWAY	Unencumbered Cash	0.00	
	Expenditures		0.00
SPECIAL PARK & POOL	Unencumbered Cash	698.48	
	Expenditures		698.48
SPECIAL PARK AND REC	Unencumbered Cash	0.00	
	Expenditures		0.00
OAK LAWN CEMETERY	Unencumbered Cash	0.00	
	Expenditures		0.00
EMPLOYEE BENEFIT	Unencumbered Cash	0.00	
	Expenditures		0.00
GAS UTILITY	Unencumbered Cash	36,395.40	
	Expenditures		36,395.40
WATER UTILITY	Unencumbered Cash	30,306.19	
	Expenditures		30,306.19
SEWER UTILITY	Unencumbered Cash	11,311.77	
	Expenditures		11,311.77
SOLID WASTE UTILITY	Unencumbered Cash	0.00	
	Expenditures		0.00
CLEARING FUND	Unencumbered Cash	0.00	
	Expenditures		0.00
ENERGY ASSISTANCE	Unencumbered Cash	3,412.84	
	Expenditures		3,412.84
		93,077.16	93,077.16
		0.00	

TO RECORD 2012 ACCOUNTS PAYABLE AND ENCUMBRANCES

Per List prepared by Devonna	51,464.32
Customer Deposits	38,200.00
Energy Assistance & Clearing Cash	3,412.84
TOTAL AP & ENC	93,077.16

	G3		
GENERAL	Transfer Out		47,230.00
	Unencumbered Cash	47,230.00	
EQUIPMENT RESERVE	Unencumbered Cash		23,615.00
	Transfer In	23,615.00	
CAPITAL IMPROVEMENT	Unencumbered Cash		23,615.00
	Transfer In	23,615.00	

TO REMOVE PRIOR YEAR TRANSFER POSTED IN 2013 AS PER PY AUDIT WORKPAPERS.

	G4		
GENERAL	Cash		13,377.32
	Unencumbered Cash	13,377.32	
GAS UTILITY	Unencumbered Cash		13,377.32
	Cash	13,377.32	

TO RECORD PRIOR YEAR ADJUSTMENT NOT POSTED IN CURRENT YEAR PER PY WPS.

CITY OF LA CYGNE, KANSAS  
 Schedule of Audit Adjustments  
 2013 Audit Adjustments.  
 December 31, 2013

PREPARED BY \_\_\_\_\_

Date:	30-Apr-14
Time:	04:23 PM

REVIEWED BY \_\_\_\_\_

FUND	Account	DEBIT	CREDIT
	G5		
EMPLOYEE BENEFIT	Expenditures	3.59	
	Unencumbered Cash		3.59
TO RECORD ACTIVITY IN FUND 34 FOR THE YEAR. (CASH DECREASED BY THIS AMOUNT)			
	A1		
GENERAL FUND	Transfers out	47,230.00	
	Cash		47,230.00
EQUIPMENT RESERVE	Cash	23,615.00	
	Transfers In		23,615.00
CAPITAL IMPROVEMENT	Cash	23,615.00	
	Transfers In		23,615.00
TO RECORD YEAR END TRANSFERS TO RESERVE FUNDS PER COUNCIL DIRECTIVE AT THE DECEMBER 19, 2012 CITY COUNCIL MEETING.			
	A2		
WATER UTILITY FUND	Transfers out		39,477.00
	Cash	39,477.00	
BOND & INTEREST FUND	Cash		39,477.00
	Transfers In	39,477.00	
TO REVERSE TRANSFERS INTO THE WATER UTILITY FUND NOT NEEDED DUE TO RWD SETTLEMENT			
		692,488.11	692,488.11
		0.00	

RECLASSIFICATION JOURNAL ENTRIES:

R-1 TO RECLASS PROPERTY TAXES TO DELINQUENT & MOTOR VEHICLE TAXES

GENERAL	Receipts-Ad Valorem	(60,792.34)
GENERAL	Receipts-Delinquent	34,043.44
GENERAL	Receipts-Motor Vehicle	26,748.90
EMPLOYEE BENEFIT	Receipts-Ad Valorem	(40,200.36)
EMPLOYEE BENEFIT	Receipts-Delinquent	22,121.67
EMPLOYEE BENEFIT	Receipts-Motor Vehicle	18,078.69

R-2 TO RECLASS DEBT SERVICE TO AGREE WITH DETAILS CONFIRMED

GENERAL	Expenses - Debt Service Principal	(11,130.19)
GENERAL	Expenses - Debt Service Interest	1,346.19
GENERAL	Expenses - Capital outlays	9,784.00
GAS UTILITY	Expenses - Debt Service Bond Principal	(1,871.16)
GAS UTILITY	Expenses - Debt Service Bond Interest	(323.46)
GAS UTILITY	Expenses - Debt Service Capital Lease Principal	1,871.16
GAS UTILITY	Expenses - Debt Service Capital Lease Interest	323.46
SEWER UTILITY	Expenses - Debt Service Capital Lease Principal	1,871.16
SEWER UTILITY	Expenses - Debt Service Capital Lease Interest	323.46
SEWER UTILITY	Expenses - Debt Service Principal	(1,871.16)
SEWER UTILITY	Expenses - Debt Service Interest	394.54
SEWER UTILITY	Expenses - Debt Service Other	(718.00)
		0.00
		0.00