



CITY OF RAPID CITY

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MEMO

To: Mayor Sam Kooiker & Common Council

From: Pauline Sumption, Finance Officer

Date: September 17, 2012

RE: FY2011 Comprehensive Financial Annual Report (CAFR)

I would first like to reiterate that the City of Rapid City received an unqualified (commonly referred to as “clean”) audit for FY2011. This means that the financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States.

That being said, we did have 5 findings/audit comments in regards to the financial statements and the preparation process. I would like to address those now, after I give you a little history.

When I began preparing the financial statements with the year ending December 31, 2007 as the assistant finance officer, we began to receive a finding because I was preparing the CAFR independently, and not substantially involving other finance staff in the process. The recommendation and action plan at the time was to train the Chief Accountant to prepare the financial statements and then I would review them. Due to circumstances beyond our control (various staff turnover), sufficient time has not available to begin this process until the preparation of the FY2011 financials. It was at this time that we took steps to bring additional staff into the process. We have just begun the training process and additional training is necessary.

In addition, the SD Department of Legislative Audit has changed the way it conducts its Annual Report training in the last few years. It used to be annually in a couple of different locations to be able to include both East River and West River towns. It then changed to training for smaller cash basis municipalities. Finally, in 2011, they returned to providing training (albeit in only one location typically in the middle of the state) for larger GAAP basis municipalities. However, in the last two years, Finance Staff has attempted to attend these training sessions. Due to weather, the first year ended up being cancelled completely and the second year the staff ended up turning around to return to Rapid City. There has been some discussion about possibly conducting the training through a webcast or something similar so the weather is no longer an issue.

2011-1 Finding: Financial Statement Preparation – We failed to include a complete footnote regarding Government Accounting Standards Board (GASB) Statement No. 54, which required us to report the net assets (also known as retained earnings or fund balance) in a different format. While the face of the financial statements included these changes, we failed to include the disclosure in the footnotes. In addition, the rules about when a municipality can be shown as a separate special revenue fund became more strict in that the fund would have to have an

independent funding source (fees instead of a transfer from another fund) to be considered separately in the financial statements. There were three funds that fell under the category of no longer being eligible for separate financial statement presentation.

Assistant Finance Officer Mary Floto has been given additional resources to assist in this process in the future. We will also receive a footnote disclosure checklist from the auditors in which I will review to make sure all of the necessary footnotes are included. In addition, I have committed to setting aside the time necessary to review the CAFR prior to providing the information to the audit team.

2011-2 Finding: Internal Controls Over Significant Accounts – There were many audit adjustments determined necessary by the auditors during their audit process – 19 to be exact. We have already planned to have an “after-action” meeting with the Finance staff involved in the preparation process. We made steps to change the process but it obviously wasn’t perfect. Additional changes are needed, as well as additional training. We are working with the auditors to create and use additional supporting schedules so we (more likely me) will be able to perform analytical reviews, check for reasonableness in the numbers presented and perform reconciliations of the various accounts.

2011-3 Finding: Budgetary Overdraft – Although the Finance Office has a process to review the budget-to-actual expenditures for all areas of the budget, some year-end adjustments and unanticipated expenses caused overdrafts in the budget. We are continuing to review processes to determine if there is something else that we can do, perhaps working on specific areas of the annual financial statements prior to year end, to determine what is needed in the final supplemental appropriation of the year.

General Fund Transfer Out (\$188,856) – This was due to a loan from SAB28 (which is combined with the General Fund for financial statement purposes) that was “forgiven” and had to be recorded as a transfer when we dissolved TID 49. This was an unanticipated journal entry at year-end.

Vision Fund Culture & Recreation (\$32,652.50) – This was due to a reclassification of expense from capital improvements type expenses to operational expenses. This was an unanticipated journal entry at year-end.

Vision Fund Transfer Out (\$134,850) – This was due to a fixed asset (facility improvements) being paid for out of the Vision Fund for the Energy Plant, which is an Enterprise Fund. This was an unanticipated journal entry at year-end.

Consolidated Construction Various Functions (\$814,721.54) – This was due to reclassifications of expenses from capital improvement type expenses to operational expenses. This was an unanticipated journal entry at year-end.

Consolidated Construction Debt Service (\$1,480,120.57) – This was due to year-end adjustment with the activity in Cash with Fiscal Agent, which is our Trustee agent on a bond issue. We did not fully anticipate this adjustment.

Consolidated Construction Fund Transfer Out (\$825,847.49) – This was due to a fixed asset (facility improvements) being paid for out of the Consolidated Construction Fund for the Meadowbrook Golf Fund, which is an Enterprise Fund. This was an unanticipated journal entry at year-end.

Occupancy Tax Fund Other Expenditures (\$15,682.51) – This was due to the accounts payable accrual at the end of the year, which was not fully anticipated.

TID 65 Debt Service (\$297,033.41) – This was due to the project costs for the TID being certified for the first time in 2011. Subsequently, the first year-end adjustment for the interest payable was completed and was unanticipated when we did the final supplemental appropriation.

TID 50 Debt Service (\$89,643.50) – This was due to the project costs for the TID being certified for the first time in 2011. Subsequently, the first year-end adjustment for the interest payable was completed and was unanticipated when we did the final supplemental appropriation.

TID 47 Debt Service (\$144,658.44) – This was due to the project costs for the TID being certified for the first time in 2011. Subsequently, the first year-end adjustment for the interest payable was completed and was unanticipated when we did the final supplemental appropriation.

Rehabilitation Escrow Community Development (\$16,138.77) – This was due to just missing the need for an adjustment for any one of the supplemental appropriation ordinances.

2011-4 Finding: Federal Grant Monitoring – The majority of this finding had to do with a federal transportation grant for the East Mall Drive project. The grant itself was awarded in 2007, expended in 2008 – 2011 and reimbursed in 2011. Between 2007 and 2008, there were many positions that turned over in which the people in those positions may have known about this grant. That being said, new positions have been added in Public Works (Compliance Specialist) to request reimbursements from the State for these types of programs. Quite honestly, the Finance Office had no idea that this grant was even out there. I have already advised Public Works Director Terry Wolterstorff that I would like a meeting with his staff and mine to determine how we communicate better to know when federal grant funds are being spent. We will also be discussing the need to request reimbursements more frequently.

In addition, we will work with the auditors to prepare supporting schedules to review the revenue accrual status for each federal grant and Assistant Finance Officer Mary Floto will be conducting periodic compliance reviews. I have been emphasizing to the department directors that it is imperative that they take any grant applications to the council to receive permission to apply and to accept the award of the grant if it is granted to their department. This finding just reiterates that point.

2011-5 Finding: Preparation of the Schedule of Expenditures of Federal Awards (SEFA) – We over-reported the expenditures of two of the grants and under-reported the expenditures of the other grant. In addition, the finding above also relates to this finding in that the SEFA reports for 2008, 2009 and 2010 were also incorrect by not including the expenditures. The past and current auditors are determining the best way to go back and correct those audit reports and SEFA reports.

We are continuously looking at ways to improve our system to make sure this schedule is correct and we will be implementing the use of reconciliation spreadsheets to compare cash to accrual amounts. In addition, as part of the RFP process for the IFAS replacement, we are looking to incorporate a software module that would encompass grants management into the accounting process.

Again, I want to emphasize that the FY2011 CAFR received a clean audit. In addition, the findings regarding the grants do not include any questioned costs. These are the good parts of the report. Bottom line is that we changed our process in response to previous findings, which was not perfect. Additional changes are necessary and between those changes and the new financial management software that we are trying to procure, we are committed to improving upon our processes and reporting.

Please feel free to contact me should you have any questions.