
CITY OF CREVE COEUR, MISSOURI

*REPORT ON INTERNAL CONTROL RELATED
MATTERS AND ADVISORY COMMENTS*

JUNE 30, 2018



SCHOWALTER & JABOURI, P.C.

Certified Public Accountants & Advisors

The Honorable Mayor, Members
of the City Council and Management
City of Creve Coeur, Missouri

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 Creve Coeur, Missouri (the "City") as of and for the year ended June 30, 2018, 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 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 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.

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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

- I. Current Year Matters
- II. Status of Prior Year Other Matters

This communication is intended solely for the information and use of management, the Honorable Mayor, the Members of the City Council, and others within the City, 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 Creve Coeur, Missouri.

Yours very truly,

SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
December 3, 2018

I. CURRENT YEAR MATTERS

A. New Accounting Guidance for Leases

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. GASB 87 is effective for fiscal years beginning January 1, 2020 and is to be applied retroactively. Existing leases are to be recognized and measured based on the facts and circumstances of the lease in the period of implementation of GASB 87, not inception of the lease. Governments generally participate in a significant number of leases and the administration of those leases may be decentralized across the organization, making it difficult to determine exactly which leases may be subject to the new accounting and financial reporting requirements.

We recommend the City begin to evaluate all current leases and contracts to determine if they meet the GASB 87 definition of a lease and develop a plan for the implementation. GFOA has issued a best practice/advisory to assist governments with the implementation.

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. During our audit, we noted the following practices which represent a lack of segregation of duties:

- The Finance Manager is a privileged superuser of the computer application.
- Several individuals have access to the vendor master data file.
- A payroll user access report was not available during our audit.

Management has indicated that the new accounting system implemented in fiscal year 2019 will resolve these segregation of duties concerns. We recommend that the City continue to monitor computer access to the accounting system to ensure proper segregation of duties. At least annually, the supervisor of each department should receive a user access report with all the employees in their department and the access that these employees have.

C. Risk Assessment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. Although management addresses risks as they arise in the normal course of everyday business, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control systems should include performance of this assessment.

The risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who also have an extensive knowledge of the City, its environment, and its processes.

Once areas vulnerable to fraud or other risks have been identified, a review of the City's systems, procedures, and existing controls relating to the identified areas should be conducted. The City should consider the additional controls that need to be implemented to reduce the risk of fraud, considering the nature and extent of controls recommended and the cost of implementing those controls. This assessment of risks and internal controls should be documented to provide the foundation for appropriate communication concerning the City's responsibility for the evaluation and monitoring of the effective operation of controls. Once completed, risk assessments should be reviewed and updated annually or as significant changes occur.

II. STATUS OF PRIOR YEAR OTHER MATTERS

A. Liability Accounts

We recommended the City investigate and take action to resolve liability accounts that appear to be dormant.

Status: Implemented.

B. Risk Assessment

Although management addresses risks as they arise in the normal course of everyday business, we recommended that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation.

Status: See "Other Current Year Matters" for current comment.

C. Computer Controls

We recommended that the City continue to monitor computer access to the GEMS system to ensure proper segregation of duties. At least annually, the supervisor of each department receives a GEMS user access report with all the employees in their department and the access that these employees have.

Status: See "Other Current Year Matters" for current comment.