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City Council and Mayor
City of Udall
Udall, Kansas

As part of our audit of the financial statements of City of Udall as of and for the year ended December 31, 2020, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The City's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide (KMAAG) which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

No matters are reportable.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Expenditures over budget
- Timely report filing

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Various adjustments were provided by the City

Proposed Audit Adjustments Not Recorded

- None

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the City's application of accounting principles:

- The use of Kansas regulatory basis accounting instead of GAAP

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

No matters are reportable.

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Accuracy of reporting within the accounting system that existed during the year under audit

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of City of Udall as of and for the year ended December 31, 2020, 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 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 City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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 observed the following matters that we consider to be deficiencies or material weaknesses.

Material Weaknesses

During initial audit fieldwork performed in April 2021 we observed several variances in cash reconciliations. Due to turnover in the City's finance department and management, these variances were not addressed until 2023. At that point in time, City personnel determined it would be easier to recreate the 2020 accounting records in an Excel spreadsheet rather than rely on the existing accounting system. Upon review of these records, it was noted that several funds had expenditures greater than what had initially been budgeted. In addition, various audited financial statements and annual operating data have not been filed timely.

We recommend the City evaluate accounting software systems to identify a system that would adequately fit the City's needs.

Deficiencies

Segregation of Duties

We noted that the City Clerk has full access to the cash receipt, payroll and cash disbursement system including taking in of money, receipting, deposits, disbursements and bank reconciliations. Although there are other staff that can perform intake and receipting duties, there is a risk when one person has access to all aspects of the process. We recommend the City segregate various aspects of the process so that no one person has the ability to perform the function in its entirety.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Meeting the Increasing Challenge of Cybersecurity

The increasing value of electronic information, payment card data and intellectual property (e.g. trade secrets) is driving more organizations of all sizes to prepare for the potential of a cyberattack. Hackers and cyber-thieves have become adept at pilfering confidential information, using ransomware to extort money and leveraging social engineering techniques to trick employees into wiring funds.

As a first step to improving their cyber-readiness, companies need to perform a cybersecurity risk assessment to determine the current state of cybersecurity processes, controls and technology. This effort can determine how well the organization can prevent, detect and respond to cyber-attacks.

This communication is intended solely for the information and use of management, City Council and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

FORVIS,LLP

Wichita, Kansas
March 4, 2024

Representation of:

City of Udall
110 South Main
Udall, Kansas 67146

Provided to:

FORVIS, LLP
Certified Public Accountants
1551 North Waterfront Parkway, Suite 300
Udall, Kansas 67206

The undersigned (“We”) are providing this letter in connection with FORVIS’ audit of our financial statement as of and for the year ended December 31, 2020.

Our representations are current and effective as of the date of FORVIS’ report: March 4, 2024.

Our engagement with FORVIS is based on our contract for services dated: October 22, 2020.

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to FORVIS’ report in conformity with Kansas regulatory basis. We understand that you will not render an unmodified opinion on the financial statements due to lack of conformity with accounting principles generally accepted in the United States of America regarding our accounting for our financial statement being in accordance with Kansas regulatory basis.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Confirmation of Matters Specific to the Subject Matter of FORVIS’ Report

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with Kansas regulatory basis and for the preparation of the supplementary information in accordance with the applicable criteria.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have reviewed and approved a draft of the financial statement and related notes referred to above, which you prepared in connection with your audit of our financial statement. We acknowledge that we are responsible for the fair presentation of the financial statement and related notes.

4. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statement, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of meetings of the governing body held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statement.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of cash.
 - b. Misrepresented or misstated cash, encumbrances or cash balance.
7. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - a. Management or employees who have significant roles in internal control, or
 - b. Others, where activities of others could have a material effect on the financial statement.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers, or others.
9. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

We understand that the term related party refers to an affiliate, management and members of their immediate families, component units, and any other party with which the entity may deal if the entity can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

11. Except as reflected in the financial statement, there are no:
 - a. Plans or intentions that may materially affect carrying values or classifications of cash and encumbrances.
 - b. Material transactions omitted or improperly recorded in the financial records.

- c. Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - d. Events occurring subsequent to the financial statement date through the date of this letter requiring adjustment or disclosure in the financial statement.
 - e. Agreements to purchase assets previously sold.
 - f. Restrictions on cash balances or compensating balance agreements.
 - g. Guarantees, whether written or oral, under which the entity is contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statement.
13. We have no reason to believe the City owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
15. Except as disclosed in the financial statement, the entity has:
 - a. Satisfactory title to all recorded assets, and they are not subject to any liens, pledges, or other encumbrances.
 - b. Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
16. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
18. With respect to any nonattest services you have provided us during the year, including assisting with the preparation of the financial statement:
 - a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
 - c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - d. We have evaluated the adequacy of the services performed and any findings that resulted.

19. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.
20. With regard to deposit and investment activities:
- a. All deposit and investment transactions have been made in accordance with legal and contractual requirements.
 - b. Disclosures of deposit and investment balances and risks in the financial statement are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - c. We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
21. The supplementary information required by the state of Kansas, consisting of schedules 1, 2, and 3, has been prepared and is measured and presented in conformity with the applicable Kansas regulatory basis pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions, and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statement. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
22. With regard to supplementary information:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - b. We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - c. The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
23. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the collection of property and sales tax, constraints on liquidity and difficulty obtaining financing. We understand those factors could negatively impact the entity's ability to meet debt covenants or maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity's financial statement. Further, management and the City Council are solely responsible for all aspects of managing the City, including evaluating capital needs and liquidity plans.

DocuSigned by:



Matt McAllister, Mayor
mayor@cityofudall.com

DocuSigned by:



Jennifer Mays, City Clerk
udallcty@cityofudall.com