

To the Honorable Mayor and  
Members of the City Council  
Olathe, Kansas

This letter is to inform the City of Olathe, Kansas (City) about significant matters related to the conduct of our audit as of and for the year ended December 31, 2019, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

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

This letter includes other comments and suggestions with respect to matters that came to our attention in connection with our audit of the City's financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the City's practices and procedures.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

### **The Responsibilities of the Auditor and Management**

Our responsibilities under auditing standards generally accepted in the United States of America and *Kansas Municipal Audit and Accounting Guide* and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated March 30, 2020. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated March 3, 2020 regarding the planned scope and timing of our audit and have discussed with you our identification of significant risks of material misstatement. We made no significant changes to the scope or timing of our procedures.

### **Significant Accounting Practices, Including Policies, Estimates and Disclosures**

Our views about the qualitative aspects of the City's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures are indicated herein, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

Adoption of, or Change in, Accounting Policies - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City, and management may select among alternative accounting practices in certain circumstances. Significant accounting policies are disclosed in Note 1 to the financial statements. The City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current year.

The Government Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The City's management has not yet determined the effect these statements will have on the City's financial statements. However, the City plans to implement all standards by the required dates. The statements which might impact the City are discussed in Note 18 to the financial statements.

Significant or Unusual Transactions - We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus

Management's Judgments and Accounting Estimates - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's financial statements.

- *Total Other Post-Employment Benefit (OPEB) Liability:* The City contracts with an external actuary to develop an estimate for the annual OPEB cost, which pertains to health care offered to retirees. The amount calculated by the actuary is then reduced by actual claims paid for retirees, resulting in a total OPEB liability at year-end to record as a liability. As a basis for our conclusions, we reviewed the actuarial report for reasonableness and verified the 2019 employer contribution for retirees.

Additionally, the City participates in KPERS' death and disability OPEB plan. The City followed guidelines in GASB statement No. 75 for reporting its share of the KPERS' death and disability OPEB plan. This included obtaining an actuary report as of June 30, 2019 provided by KPERS on the City's share of this plan liability. As a basis for our conclusion, we reviewed KPERS' report for reasonableness and verified and recalculated the City's information provided in the report.

- *Net pension liability:* The City follows guidelines in GASB Statement No. 68 and 82 for reporting its proportionate share of KPERS' collective net pension liability. This included obtaining KPERS' report on Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer and Nonemployer as of June 30, 2019, which was audited by KPERS' auditors. The City compared contributions made by the City to amounts included in this report. As a basis for our conclusions, we reviewed the KPERS' report for reasonableness and verified and recalculated the City's information provided in the report.
- Management's estimates of accrued compensated absences are based on a list of accumulated vacation and sick time through December 31, 2019, from the City's payroll system and calculations per the City's policy to permit employees to accumulate certain amounts of vacation and sick leave, which are discussed in Note 1. As a basis for our conclusion, we reviewed key factors and assumptions used to calculate the accrued compensated absences for reasonableness.
- Management estimates of the allowances for doubtful accounts are based on historical revenues, historical loss levels, and analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowances for reasonableness.

### **Audit Adjustments**

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

### **Uncorrected Misstatements**

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

## **Management Representations**

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles and also includes the more significant and specific oral representations made by officers and employees during the course of the audit. The letter is intended to reduce the possibility of misunderstandings between us and the City and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

## **Other Disclosures**

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit year; we encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements; we are not aware of any consultations management had with other accountants about accounting or auditing matters; significant issues arising from the audit were discussed or the subject of correspondence with management; and we did not encounter any difficulties in dealing with management relating to the performance of the audit.

## **Other Matters**

### **Information Security Governance**

Executive managers and those charged with governance must be confident that the entity is protecting your information and the systems that process it. The potential impacts of a failure in the availability, confidentiality or integrity of your critical information assets is monumental in today's environment of cybersecurity breaches.

Many organizations believe their information security practices are adequately mitigating their risks. Unfortunately, they are often surprised to discover those practices are failing to perform as expected and the consequences are usually severe.

Information security is more than a technology issue. It is a governance and management challenge that involves risk management, accountability and reporting. And it requires executive stewardship to ensure the timely assessment of emerging threats and your organization's effective response to them.

Additional information on "Information Risk is Business Risk" can be accessed through our AGH University website located at <http://www.aghuniversity.com/webinars/archived/archived-webinars.aspx> (from the "select a topic" drop-down box, select Information Technology). Additionally, we encourage your management team to take advantage of peer networking groups, trade associations or other resources relating to IT and information risk and the most recent best practices as the constant risk evolves.

Additionally, a structured assessment can help you develop stronger, better and more systematic approaches to your information security. It will help you clearly and objectively understand the strengths and weaknesses in your current information security processes and the extent to which those processes are meeting your needs. Most important, it will guide you with recommendations to help you protect your information, facilities, people and technology.

We believe a review or assessment must be completed on a periodic basis; this assessment can be completed internally or by using an outsourced service provider. Executive managers should be involved with the review and summary reports should also be shared with those charged with governance.

### **Vulnerability Assessment**

In addition to a periodic information system governance review, the entity should also conduct periodic (at least annually or semi-annually) vulnerability assessments. There are more than 100,000 known network vulnerabilities that can leave organizations open to significant risk. High-profile security breaches have become commonplace and many companies are susceptible to the same failures.

Network vulnerability assessments can help you identify and resolve your vulnerabilities before they are exploited by cybercriminals. AGH's experienced security professionals use network vulnerability assessments to discover and analyze known flaws and weaknesses.

Using automated scanners – along with their experience and judgment – our security professionals will identify existing vulnerabilities, evaluate their severity and recommend steps for fixing the underlying problems.

### **Comprehensive Policy and Procedure Review**



Given the broad and deep scope of your operations, you should consider completing a comprehensive evaluation of the adequacy and effectiveness of the entity's internal financial policies, processes and procedures, including a comparison to best practices among organizations the same size.

For entities that have experienced budget cuts in the finance area or those that have experienced turnover, a periodic review of controls is imperative. Even if your finance team has been stable over the years, we remind you that even the best design of controls is only as good as the people who carry out and execute such controls.

Financial policies, procedures and processes are a key element of sound fiscal administration. When policies are effective, they can preserve or enhance the fiscal health and wealth of the organization and create efficiencies for staff members.

This comprehensive evaluation could include:

1. Evaluation of existing controls
2. Identification of financial policies that could lead to vulnerability to fraud and/or abuse
3. For those identified weaknesses and risks, recommendations for improvements

### **AGHUniversity Resources**

As part of AGH's ongoing commitment to serve as a trusted advisor, we offer these resources as a key part of the additional value AGH provides beyond the engagement itself:

- AGHUniversity.com – a full schedule of complimentary CPE or current and relevant topics and other updates to clients throughout the year. Free registration and webinars are available for the Company's staff and board members at [aghuniversity.com](http://aghuniversity.com). A sample of recent topics include Management and Key Position Succession Planning; Destroying the Myths about Employee Engagement; Preventing Fraud in Small and Medium Sized Organizations; Measuring What Matters in Your 401K Plan to Recruitment, Retention and Reward; Planning The Transition: Taking Your Company To Market; and The How and Why of Business Valuations.
- AGH alerts and newsletters – this includes periodic mailings or emails to alert clients to new accounting standards or regulatory changes.
- Also available from the home page of [www.aghlc.com](http://www.aghlc.com) are COVID-19 resources for employers and taxpayers. You can access tax and HR-related alerts, webinars and other third-party resources to help you navigate through the COVID-19 pandemic.

### **Closing**

We will be pleased to respond to any questions you have about this report or set up an introductory meeting to discuss the other recommendations at no charge. We appreciate the opportunity to continue to be of service to the City of Olathe, Kansas.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

June 8, 2020  
Wichita, KS