

**MANAGEMENT LETTER OF**  
**CITY OF OSAGE BEACH, MISSOURI**  
**DECEMBER 31, 2017**

May 17, 2018

Jeana Woods, City Administrator  
Karri Bell, City Treasurer  
Mayor and Board of Aldermen  
City of Osage Beach, Missouri

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Osage Beach ("the City") as of and for the year ended December 31, 2017, in accordance with U.S. generally accepted auditing standards, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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 City'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

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

Sincerely,



WILLIAMS-KEEPERS LLC

**CITY OF OSAGE BEACH**  
**APPENDIX A**  
**Prior Year Comments**

As noted in our 2016 management letter, we did not identify any deficiencies in internal control we considered to be a material weakness, as defined above. However, as discussed below, we did identify a certain deficiency in internal control that we considered to be a significant deficiency. 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 considered the following deficiency in internal control to be a 2016 significant deficiency:

**Inventory Procedures**

During our audit, we noted a significant deficiency in the controls over tracking, valuing and recording inventory balances in the water, sewer, and transportation funds. This could cause the balances reported in the financial statements to be inaccurate.

1. The City's general ledger package has an inventory module that allows it to track the quantities and calculate the average cost, the City's method of valuing inventory. However, the City is not utilizing the package. As of December 31, 2016, the majority of the dollar value of inventory was being tracked by methods other than the City's inventory system. Thus, the inventory records are not centralized and are maintained in various methods, making it susceptible to errors and miscalculations. We recommend the City start including and tracking all inventory in the inventory system (Incode) in order to be consistent, have centralized records, and to be able to assess the total quantities and dollar value of each inventory item at a given point in time.
2. The City's current method of valuing inventory is the average unit cost, an option under generally accepted accounting principles. However, that does require that the City to ensure all purchases are appropriately entered into an inventory system so the average cost can be calculated with each purchase. As a result, the unit cost of each inventory item needs to be tracked and recorded on a consistent basis. At a minimum, we recommend the City develop procedures so that the purchases of inventory are entered timely into the inventory system and the inventory quantities are removed when used. However, we also recommend the City consider using the first-in, first-out method of valuing inventory where the City records each item at actual cost (not average cost) for simplicity purposes. This could result in multiple records for the same inventory item (i.e. a separate record for each inventory purchase, assuming items are purchased at different actual costs). Layers are "used up" as inventory is used with the oldest layer being removed first.
3. The inventory listings need to be reviewed for accuracy, completeness, and reasonableness on a regular basis by someone in the public works department in order to ensure the financial reporting is appropriate. Furthermore, these departments should be performing regular physical inventory counts and comparing the counts to the inventory listings to ensure the physical count is accurate, again ensuring the financial reporting is accurate. At this time, any necessary adjustments need to be recorded to ensure the general ledger and the inventory system agrees to the actual counts.
4. Invoices could not be located for several inventory purchases selected for testing as invoices are not available for items purchased prior to 2014 but the items were still inventory. We recommend maintain support for all inventory purchases in order to substantiate the values at which inventory is recorded.

*2017 Status:* During 2017, the City instituted an inventory corrective action plan (CAP) that addressed the above items. The CAP covered inventory left over from projects, inventory pricing, tracking of water meters and pumps, and inventory review. We noted sufficient improvement in the results of our audit procedure to not report as a significant deficiency for 2017. However, we do encourage the City to continue to follow the CAP and ensure there are procedures in place to ensure the accuracy of the amounts reported as inventory.