

CITY OF ODESSA, MISSOURI
INDEPENDENT AUDITOR'S REPORTS
SINGLE AUDIT ACT
YEAR ENDED SEPTEMBER 30, 2015

CITY OF ODESSA, MISSOURI

SINGLE AUDIT ACT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	2
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	5-6
Schedule of Findings and Questioned Costs	7-8
Summary Schedule of Prior Audit Findings	9

CITY OF ODESSA, MISSOURI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2015

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA#</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>			
Passed through the Missouri Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C295675-01	\$ 7,897,384
Capitalization Grants for Clean Water State Revolving Funds	66.458	C295675-02	<u>1,068,805</u>
Total U.S. Environmental Protection Agency			<u>8,966,189</u>
<u>U.S. Department of Transportation</u>			
Passed through the Missouri Department of Transportation:			
Federal-Aid Highway Program	20.205	STP-9900 (503)	<u>155,000</u>
Total U.S. Department of Transportation			<u>155,000</u>
Total expenditures of federal awards			<u>\$ 9,121,189</u>

The accompanying notes are an integral part of this schedule.

CITY OF ODESSA, MISSOURI

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2015

1. Summary of Significant Accounting Policies

The schedule of expenditures of federal awards, by grantor agency, presents the program expenditures for all federal award programs of the City and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. For purposes of this report, federal awards are those received directly from a federal agency and those awards received from other agencies, the original source of which was a federal agency.

The expenditures reported in the schedule of expenditures of federal awards have been prepared on the accrual basis of accounting, as permitted by the grantor agencies, in conformity with generally accepted accounting principles.

2. Expenditures of Federal Awards

The City has authorized the issuance of \$8,000,000 of Series 2014 and \$3,000,000 of Series 2015 Combined Waterworks and Sewerage System Revenue Bonds (State of Missouri – Direct Loan Program) as a result of its participation in the State of Missouri Direct Loan Program. Under the Direct Loan Program, the Missouri Department of Natural Resources loans the City amounts equal to eligible costs related to the project to be financed by the loan. The loan proceeds received by the City consist of U.S. Environmental Protection Agency capitalization grant funds and are reported as federal assistance in the Schedule of Expenditures of Federal Awards.

CUDNEY, ECORD, McENROE & MULLANE L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and Members of
the Board of Aldermen
City of Odessa, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Odessa, Missouri (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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 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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. We consider the deficiency described in Finding 2015-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 28, 2016

**Independent Auditor's Report on Compliance For
Each Major Federal Program; Report on Internal
Control Over Compliance; and Report on the
Schedule of Expenditures of Federal Awards
Required By OMB Circular A-133**

The Honorable Mayor and Members of
the Board of Aldermen
City of Odessa, Missouri

Report on Compliance for Each Major Federal Program

We have audited the City of Odessa, Missouri's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2015. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Odessa, Missouri, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated March 28, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cudrey, Scott, McEuse & Williams LLC

March 28, 2016

CITY OF ODESSA, MISSOURI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended September 30, 2015

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Odessa, Missouri.
2. One significant deficiency relating to the audit of the financial statements is reported in Part B of this Schedule.
3. No instances of noncompliance material to the financial statements of the City of Odessa, Missouri were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the internal control over the major federal award program were noted.
5. The auditor's report on compliance for the major federal award program for the City of Odessa, Missouri expresses an unmodified opinion on the major federal program.
6. There were no audit findings relative to the major federal award program for the City of Odessa, Missouri that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in Part C of this Schedule.
7. The program tested as a major program was the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA 66.458).
8. The threshold used to distinguish between Type A and B programs was \$300,000.
9. The City of Odessa, Missouri did not qualify to be a low-risk auditee.

B. Findings - Financial Statement Audit

2015-1 Segregation of Duties

Condition

The City has a lack of segregation of duties related to certain financial transactions.

Criteria

The concept of segregation of duties is such that the authorization and recording of transactions, and access to the related assets is not the responsibility of the same individual.

Cause

The City has a limited number of employees to fully segregate duties.

Effect

A lack of segregation of duties increases the risk of loss or errors in recording transactions, safeguarding assets and financial statement reporting.

Recommendation

Although the small size of the City's accounting and other staff limits the full extent of segregation of duties, we believe certain additional procedures and reviews could be implemented to reduce the effect of incompatible duties.

Response

The City concurs with the recommendations that the City of Odessa, Missouri would be best served by segregating fiscal duties as outlined above. At the current time, the additional staff required to implement the recommendation is not practical in order to allow us to fully implement the recommendation. The City's Board of Aldermen and management will remain actively involved in the financial affairs of the City to provide oversight and independent review functions.

C. Findings and Questioned Costs - Major Federal Award Program Audit

None

CITY OF ODESSA, MISSOURI

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended September 30, 2015

There are no prior year findings to report.