Performance Audit
Review of Audits of Outside Agencies

February 2008

This document contains active links. For more information on how to navigate a PDF document please refer to PDF Navigation Instructions available through any of our Audit Reports pages.

City Auditor's Office

City of Kansas City, Missouri

15-2007

February 27, 2008

Honorable Mayor and Members of the City Council:

Non-municipal agencies receive substantial taxpayer support. In fiscal year 2007, 46 agencies received over $158 million in funding or pass-through money to operate or administer programs or services that further the public good. This funding represented about 18 percent of the city's general municipal program expenditures during the fiscal year.

It is important that each agency's financial management is sound. Agencies receiving $100,000 or more from the city in a year are required to engage a certified public accountant to conduct a financial audit and a qualified professional to analyze the agency's internal control structure. The city's Code of Ordinance requires that this office annually report the results of the agencies' commercial audits to the mayor, City Council, and city manager.

Commercial auditors for 18 of the 46 agencies had findings they were required to report. All agencies submitted their audits as required, however, four agencies did not submit the required internal control analysis.

The city has a significant financial stake in many of the non-municipal agencies. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To give a more complete picture of the financial health of these agencies, this report includes financial analysis for 12 reporting agencies that received over $1 million in fiscal year 2007. For these 12 agencies, we identified nine agencies with at least one weak financial indicator.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. The team for this project was Joyce Patton and Nancy Hunt.

Gary L. White
City Auditor

Review of Audits of Outside Agencies

Table of Contents

Introduction 1
- Objectives 1
- Scope and Methodology 1
- Background 2
  - Legislative Authority 2
  - Funding 2

Analysis 5
- Summary 5
- All Agencies Submit Financial Audits but not Internal Control Analyses 5
- Agencies with Reported Problems 6
  - Black Economic Union of Greater Kansas City (December 31, 2006) 8
  - Bridging the Gap, Inc. (April 30, 2007) 9
  - Community Development Corporation of Kansas City and Subsidiaries (February 28, 2007) 10
  - Downtown Kansas City Community Improvement District (April 30, 2007) 11
  - Good Samaritan Project, Inc. (December 31, 2006) 12
  - Harvesters – The Community Food Network (June 30, 2007) 13
  - Hispanic Economic Development Corporation of Greater Kansas City (May 31, 2007) 14
  - Kansas City Area Transportation Authority (December 31, 2006) 15
  - Metropolitan Ambulance Services Trust (April 30, 2007) 16
  - New Horizons Assistance Corporation (December 31, 2006) 17
  - Samuel U. Rodgers Health Center, Inc. (September 30, 2006) 18
  - Swope Community Builders and Subsidiaries (December 31, 2006) 19
  - Swope Health Services (December 31, 2006) 20
  - Tax Increment Financing Commission of Kansas City, Missouri (April 30, 2007) 21
  - Truman Medical Center, Inc. (June 30, 2007) 22
  - Twelfth Street Heritage Development Corporation (May 31, 2006) 23
  - Twelfth Street Heritage Development Corporation (May 31, 2007) 24
  - Union Station Kansas City, Inc. and Subsidiary (December 31, 2006) 25
  - Westside Housing Organization, Inc. and Subsidiaries (May 31, 2007) 26
- Financial Analysis for Liquidity, Performance, and Long Term Stability 27
  - Criteria for Financial Condition 27

Appendices 35
- Appendix A: Summary of Reports Reviewed and Findings of Commercial Auditors 35
- Appendix B: Definitions of Deficiencies 41
- Appendix C: Financial Analysis Methodology 45

Review of Audits of Outside Agencies

List of Exhibits

Exhibit 1. Fiscal Year Funding and Three-Year Average Percentage of City Support to Total Revenue 3
Exhibit 2. Noncompliance with Financial and Internal Control Reporting Requirements by Year 5
Exhibit 3. Agencies Not Submitting Internal Control Reports 6
Exhibit 4. Type of Funding by Year 6
Exhibit 5. Agencies with Findings 7
Exhibit 6. Financial Condition Indicators 27
Exhibit 7. Financial Condition of Agencies Receiving $1 Million or More in 2007 28
Exhibit 8. Children's Mercy Hospital Financial Ratios 28
Exhibit 9. Convention and Visitors Bureau of Greater Kansas City Financial Ratios 29
Exhibit 10. Economic Development Corporation of Kansas City, Missouri, Financial Ratios 29
Exhibit 11. Friends of the Zoo, Inc., of Kansas City, Missouri, Financial Ratios 29
Exhibit 12. Kansas City Area Transportation Authority Financial Ratios 30
Exhibit 13. Kansas City Free Health Clinic Financial Ratios 30
Exhibit 14. Metropolitan Ambulance Services Trust Financial Ratios 30
Exhibit 15. Samuel U. Rodgers Health Center, Inc., Financial Ratios 31
Exhibit 16. Swope Health Services Financial Ratios 31
Exhibit 17. Tax Increment Financing Commission of Kansas City, Missouri, Financial Ratios 32
Exhibit 18. Truman Medical Center, Inc., Financial Ratios 32
Exhibit 19. Union Station Kansas City, Inc., Financial Ratios 33

Introduction

Objectives

The purpose of this audit of outside agencies is to provide elected officials and city staff with information on the financial condition and internal controls of agencies receiving significant city funding and assist them when making decisions about future funding for these agencies.

This audit was conducted pursuant to Article II, Section 216 of the Charter of Kansas City, Missouri and Kansas City Code of Ordinances Section 2-113. Code Section 2-113 requires that the city auditor review the audits of outside agencies and annually report the negative opinions, reportable conditions, and material weaknesses to the mayor, City Council, and city manager.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.[1]

Scope and Methodology

An outside agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service that furthers the public good.[2] Our review was limited to those outside agencies receiving $100,000 or more from the city in fiscal year 2007 and agencies that provided us with audits after our previous year's report was published. This review is based on the audit reports we received from these agencies between February 22, 2007 and February 14, 2008. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Our review was performed in accordance with generally accepted government auditing standards. We do not include a written response from management because we do not make any recommendations. Audit methods included:

[1] Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.
[2] Contracts with the commissioner of purchases and supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

- Identifying outside agencies that received at least $100,000 from the city in fiscal year 2007.

- Summarizing the findings of the agencies' commercial auditors.

- Identifying agencies' planned corrective actions and monitoring department oversight activities.

- Calculating selected financial ratios for those agencies receiving $1 million or more from the city during fiscal year 2007.

- Calculating the percentage of agency revenue comprised of city funding during the past three years.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

Section 2-113 of the Code of Ordinances requires that city contracts include a provision that any agency receiving $100,000 or more in city funding within a year engage a certified public accountant (CPA) to conduct a financial audit and requires the CPA to submit the audit, management letter, and response to the management letter to the city auditor. The annual audit is to be submitted to the monitoring department within six months of the agency's fiscal year-end. In addition, the agency is required to engage a professional qualified to analyze the agency's internal control structure, and the professional is to furnish the city auditor with a copy of the analysis.

Funding

Non-municipal agencies receive substantial taxpayer support. During fiscal year 2007, the city provided 46 non-municipal agencies with over $158 million in funding, representing about 18 percent of the city's general municipal program expenditures during that year. (See Exhibit 1.) Seven city departments contract with these outside agencies and are responsible for monitoring the agencies' performance.

Outside agencies' level of dependence on city funding varied among agencies. Based on the most recent three-year averages, city support ranged from less than 1 percent to 75 percent of agency revenues. City funding comprised less than 19 percent of agency funding for 26 agencies, but more than one-half of agency funding for 4 agencies. (See Exhibit 1.) Diverse funding sources can make agencies less dependent on city support.

Exhibit 1. Fiscal Year Funding and Three Year Average Percentage of City Support to Total Revenue

Agency	City Funding and Pass-Through Payments 2005	2006	2007	Percentage City Support to Total Revenue 3-Year Avg.
American Jazz Museum, Inc.	$ 674,000	$ 624,000	$ 624,000	28%
Black Economic Union of Greater Kansas City	297,313	202,847	179,024	18%
Blue Hills Community Services Corporation	0	53,667	129,757	10%[3]
Bridging the Gap, Inc.	450,100	478,000	411,200	35%
Cabot Westside Health Center	189,390	536,014	491,163	16%
Children's Mercy Hospital	2,058,485	1,411,697	1,400,000	.3%
Community Assistance Council, Inc.	248,355	234,030	239,253	41%
Community Development Corporation of Kansas City	424,891	1,131,988	104,828	20%
Community LINC	123,474	165,638	131,183	16%
Convention and Visitors Bureau of Greater Kansas City	5,122,325	5,843,757	7,440,860	75%
Downtown Kansas City Community Improvement District	0	0	169,354	9%[3]
Economic Development Corporation of Kansas City, Mo.	943,018	1,046,215	1,216,300	23%
Family Conservancy, Inc.	0	281,573	124,227	2%[4]
Friends of the Zoo, Inc., of Kansas City, Missouri	3,994,223	4,000,000	3,243,632	27%
Good Samaritan Project, Inc.	652,027	514,592	542,834	44%
Greater Kansas City Housing Information Center	147,305	160,940	219,049	52%
Guadalupe Centers, Inc.	263,855	450,431	368,506	8%
Harvesters – The Community Food Network	0	0	771,849	13%[3]
Hispanic Economic Development Corporation of Greater Kansas City	158,778	119,535	121,120	31%
Hope House, Inc.	129,286	120,460	130,309	4%
Ivanhoe Neighborhood Council	0	23,930	117,522	22%[3]
Kansas City Area Transportation Authority	44,483,447	47,995,232	46,801,115	56%
Kansas City Free Health Clinic	1,162,085	1,704,287	1,770,489	20%
Land Clearance for Redevelopment Authority	0	2,760	130,908	1%
Legal Aid of Western Missouri	613,203	774,990	782,594	11%
Liberty Memorial Association	819,881	588,000	796,677	24%
Metropolitan Ambulance Services Trust	8,637,189	12,300,000	13,500,000	40%
New Horizons Programs, Inc.[5]	0	69,940	226,441	9%[3]
Newhouse	167,586	155,646	182,349	12%
Northland Health Care Access	93,556	136,773	416,002	18%
Northland Neighborhoods, Inc.	257,658	332,207	320,589	35%
Operation Breakthrough, Inc.	109,375	210,041	939,642	6%
Planned Industrial Expansion Authority of Kansas City, Mo.	271,098	125,032	150,000	7%

[3] Based on one year.
[4] Based on two years.
[5] Included in New Horizons Assistance Corporation's financial statements.

Agency	City Funding and Pass-Through Payments			Percentage City Support to Total Revenue
	2005	2006	2007	3-Year Avg.
reStart, Inc.	73,684	287,454	645,177	21%[6]
Rose Brooks Center, Inc.	185,299	182,211	155,419	4%
Salvation Army	0	0	217,053	1%[7]
Samuel U. Rodgers Health Center, Inc.	457,860	1,810,185	1,712,372	10%
SAVE, Inc.	1,046,505	720,014	993,487	24%
Swope Community Builders	540,719	431,122	710,203	7%
Swope Health Services	606,028	1,313,983	1,601,209	3%
Tax Increment Financing Commission of Kansas City, Mo.	35,324,959	38,388,136	40,871,652	52%
Truman Medical Center, Inc.	16,817,225	25,827,151	25,141,817	7%
Twelfth Street Heritage Development Corporation	150,579	159,567	467,198	34%
Union Station Kansas City, Inc.	1,302,289	1,186,857	1,384,857	5%
United Services Community Action Agency	149,932	111,172	128,270	2%
Westside Housing Organization, Inc.	161,198	139,573	114,271	12%
Total	$129,308,180	$152,351,647	$158,335,761	

Source: City's financial management system (PeopleSoft), agency financial audits, and City Auditor's Office calculations.

Back to Table of Contents

[6] Based on two years.
[7] Based on one year.

Analysis

Summary

Commercial auditors for 18 non-municipal agencies receiving $100,000 or more in fiscal year 2007 reported accounting, internal control, or material compliance problems. For each of these agencies, we have prepared summaries of the specific weaknesses identified; the agency's planned corrective action; and the monitoring department's oversight activities. All agencies provided their financial reports for our review however, four agencies did not provide an internal control analysis.

The financial condition of 9 of the 12 agencies that received $1 million or more in funding in 2007 is of concern. We compiled financial indicators to evaluate an agency's liquidity, financial performance, and long term stability.

All Agencies Submit Financial Audits but not Internal Control Analyses

Agency compliance with financial and internal controls reporting requirements is improving. All agencies required to submit a financial audit to our office have done so. Only four agencies failed to submit an internal control analysis. (See Exhibit 2.)

Exhibit 2. Noncompliance with Financial and Internal Control Reporting Requirements by Year[8]

	Number of Agencies				
	2004	2005	2006	2007	2008
Not Submitting Financial Audit	3	7	5	1	0
Not Submitting Internal Control Analysis	10	8	10	10	4

Sources: City Auditor's Office records.

Kansas City Code of Ordinances Section 2-113 requires departments to include in their contracts with outside agencies a requirement for the agencies to submit an internal control analysis[9] to the city auditor. Although the reporting requirement was contained in their contracts, four agencies did not provide an internal control analysis. As a result, Councilmembers and staff may not have

[8] The years within the exhibit indicate the year in which an agency's audit and internal control analysis should have been included in this annual report. In some instances the agencies provided reports that were included in subsequent years.

[9] Internal control reports communicate any deficiencies in an agency's internal control structure that may lead to the financial statements being materially misstated and assets not being adequately safeguarded.

information on whether the agency's internal control structure is adequate to safeguard funds provided to it. (See Exhibit 3.)

Exhibit 3. Agencies Not Submitting Internal Control Reports

Agency	Audit Year Ending	Funding
Cabot Westside Health Center	12/31/2006	$491,163
Children's Mercy Hospital	6/30/2007	1,400,000
Convention and Visitors Bureau of Greater Kansas City	12/3120/06	7,440,860
Ivanhoe Neighborhood Council	12/31/2006	117,522

Sources: Annual agency commercial audits for the years ended as indicated above and the city's financial management system (PeopleSoft).

Agencies with Reported Problems

The number of agencies with internal control problems increased this year. This increase is at least in part a result of a change in the auditing standards that expands what auditors are required to report as material weaknesses or significant deficiencies. Commercial auditors for 18 of the agencies submitting audits had findings they were required to report. Commercial auditors identified material weaknesses for 5 agencies, reportable conditions or significant deficiencies for 17 agencies, and noncompliance issues for 5 agencies. (See Exhibits 4 and 5.) (See Appendix A for a summary of the audit and internal control findings for all agencies and Appendix B for an explanation of the accounting terminology used in Exhibits 4 and 5.)

Exhibit 4. Type of Finding by Year[10]

Finding	Number of Agencies				
	2004	2005	2006	2007	2008
Qualified Opinion	1	2	3	1	0
Material Weakness	1	4	4	1	5
Reportable Condition or Significant Deficiency	7	12	12	8	17
Noncompliance	4	6	8	3	5
Agencies Reviewed	46	41	45	42	46
Agencies with Findings	8	12	13	9	18
Percent of Agencies with Findings	17%	29%	29%	21%	39%

Sources: Annual agency commercial audits.

[10] The years within the exhibit indicate the year in which an agency's audit was included in this annual report. An agency audit can have multiple findings and an agency may submit more than one report in a review period.

Exhibit 5. Agencies with Findings

Agency	Audit Year Ending	Material Weakness	Reportable Condition or Significant Deficiency[11]	Non-Compliance
Black Economic Union of Greater Kansas City	12/31/2006			Yes
Bridging the Gap, Inc.	4/30/2007	Yes	Yes	
Community Development Corporation of Kansas City, Missouri and Subsidiaries	2/28/2007	Yes	Yes	
Downtown Kansas City Community Improvement District	4/30/2007		Yes	
Good Samaritan Project, Inc.	12/31/2006		Yes	
Harvester's – The Community Food Network	6/30/07	Yes	Yes	
Hispanic Economic Development Corporation of Greater Kansas City	5/31/2007	Yes	Yes	
Kansas City Area Transportation Authority	12/31/2006		Yes	Yes
Metropolitan Ambulance Services Trust	4/30/2007		Yes	
New Horizons Assistance Corporation	12/31/2006		Yes	Yes
Samuel U. Rodgers Health Center, Inc.	9/30/2006		Yes	Yes
Swope Communities Builders and Subsidiaries	12/31/2006		Yes	
Swope Health Services	13/31/2006		Yes	
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2007		Yes	
Truman Medical Center, Inc.	6/30/2007		Yes	Yes
Twelfth Street Heritage Development Corporation	5/31/2006		Yes	
Twelfth Street Heritage Development Corporation	5/31/2007		Yes	
Union Station Kansas City, Inc.	12/31/2006	Yes	Yes	
Westside Housing Organization, Inc. and Subsidiaries	5/31/2007		Yes	

Sources: Annual agency commercial audits.

[11] In May 2006, the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit.* SAS 112 deletes the term "reportable condition" and introduces the term "significant deficiency". SAS 112 became effective for financial statements prepared for fiscal years ending on or after December 15, 2006.

Black Economic Union of Greater Kansas City (December 31, 2006)

	2005	2006	2007
Funding	$297,313	$202,847	$179,024
Noncompliance	Yes	Yes	Yes

Noncompliance:
Black Economic Union (BEU) was not in compliance with the terms of a loan agreement with the Housing and Economic Development Financial Corporation (HEDFC) that required the establishment of an operating fund, a replacement reserve fund from loan proceeds, and monthly contributions to reserve funds.[12]

Management's response:
BEU is currently in the process of selling the properties.

City Development's response:
City Development asked BEU to provide a written description of the actions they are taking to address their finding.

[12] Black Economic Union of Greater Kansas City, Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Emerick & Company, P.C., for the year ending December 31, 2006.

Bridging the Gap, Inc. (April 30, 2007)

	2005	2006	2007
Funding	$450,100	$478,000	$411,200
Material Weakness			Yes
Significant Deficiency			Yes

Material weakness and significant deficiency:
Bridging the Gap, Inc. has not adopted an antifraud policy or assessed and documented fraud risks.[13]

The organization does not have adequate resources and procedures to recognize, properly record, and report non-routine transactions or closing procedures.[13]

Management's response:
Bridging the Gap, Inc. adopted an antifraud policy, and plans to assess fraud risk, create written closing procedures, allocate additional staff time to the process, and contact a CPA firm for non-routine transactions.

Public Works' response:
Public Work's received a description of Bridging the Gap's corrective actions.

[13] Bridging the Gap, Inc., Management Letter Comments, Keller & Owens, LLC, for the year ending April 30, 2007.

Community Development Corporation of Kansas City and Subsidiaries (February 28, 2007)

	2005	2006	2007
Funding	$424,891	$1,131,988	$104,828
Qualified Opinion	Yes		
Material Weakness			Yes
Significant Deficiency			Yes

Material weakness and significant deficiency:
The Community Development Corporation of Kansas City classified Citadel Plaza, LLC as an investment rather than a discrete department.[14]

The Corporation did not maintain complete accounting records for Citadel Plaza, LLC.[14]

The Corporation classified Metro Plaza Investors, LLC as an investment instead of a consolidated subsidiary.[14]

Management's response:
Community Development Corporation reclassified Citadel Plaza, LLC, and Metro Plaza Investors, LLC, and updated the accounting records of Citadel Plaza, LLC.

City Development's response:
City Development received assurances from the agency that the reclassifications have taken place and is planning to schedule reviews to ensure compliance.

[14] Community Development Corporation of Kansas City, 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, Management Letter Comments, Ralph C. Johnson & Company P.C., for the year ending February 28, 2007.

Downtown Kansas City Community Improvement District (April 30, 2007)

	2005	2006	2007
Funding	$0	$0	$169,354
Significant Deficiency			Yes

Significant deficiency:
Downtown Kansas City Community Improvement District did not maintain documentation of journal entries being approved by another employee.[15]

Management's response:
Downtown Kansas City Community Improvement District's chief executive officer will review all journal entries before they are posted.

City Development's response:
City Development requested the agency provide the department a response to the findings.

[15] Downtown Kansas City Community Improvement District, Management Letter Comments, Grant Thornton LLP, for the year ending April 30, 2007.

Good Samaritan Project, Inc. (December 31, 2006)

	2005	2006	2007
Funding	$652,027	$514,592	$542,834
Reportable Condition	Yes	Yes	
Significant Deficiency			Yes

Significant deficiency:
Due to the size of the accounting department, there is little segregation of accounting functions. However, additional costs may outweigh the benefits received.[16]

Management's response:
In a letter to the Federal Audit Clearinghouse, Good Samaritan Project, Inc. management stated the agency tries to mitigate the effect of inadequate segregation of accounting functions by having the board president and treasurer actively involved in and closely monitoring the financial management of the agency.

Health Department's response:
Health plans to conduct an agency site monitoring visit to review their internal control process and to work with the agency to define additional measures to manage the inherent risk**.**

[16] Good Samaritan Project, Inc., Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Schmidt, Cornish & Smith, CPAs, for the year ending December 31, 2006.

Harvesters – The Community Food Network (June 30, 2007)

	2005	2006	2007
Funding	$0	$0	$771,849
Material Weakness			Yes
Significant Deficiency			Yes

Material weakness and significant deficiency:
Harvesters does not have proper segregation of accounting duties.[17]

Management's response:
Harvesters implemented certain mitigating controls to reduce the associated risk.

City Development's response:
City Development requested documentation supporting the mitigating controls Harvesters implemented.

[17] Harvesters – The Community Food Network, Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, Mayer Hoffman McCann P.C., for the year ending June 30, 2007.

Hispanic Economic Development Corporation of Greater Kansas City (May 31, 2007)

	2005	2006	2007
Funding	$158,778	$119,535	$121,120
Material Weakness			Yes
Significant Deficiency			Yes

Material weakness and significant deficiency:
Hispanic Economic Development Corporation did not record receivables for $25,000 current year income at fiscal year end, resulting in an audit adjustment.[18]

Management's response:
Hispanic Economic Development Corporation hired an external accounting firm specializing in assisting nonprofit organizations with their accounting and reporting responsibilities. The agency also developed a current accounts receivable/payable chart to track incoming and outgoing amounts.

City Development's response:
City Development requested the agency provide the department their response to the finding.

[18] Hispanic Economic Development Corporation, Management Letter Comments, Miller, Haviland, Ketter, P.C., P.A., for the year ending May 31, 2007.

Kansas City Area Transportation Authority (December 31, 2006)

	2005	2006	2007
Funding	$44,483,447	$47,995,232	$46,801,115
Significant Deficiency			Yes
Noncompliance			Yes

Significant deficiency:
The Kansas City Area Transportation Authority (KCATA) filed their National Transit Database (NTD) report late for the past three years.[19]

KCATA failed to obtain the Federal Transit Authority's (FTA) approval for the use of proceeds prior to selling two buses purchased with federal funds. Because the proceeds from the bus sales were greater than $5,000, KCATA was required to obtain FTA's approval prior to selling the buses.[19]

Management's response:
KCATA is developing reports that will provide NTD information in a timely manner and developing a process ensuring the proper process is followed when sale or disposal proceeds are greater than $5,000 on equipment purchased with federal transit funds.

Noncompliance:
KCATA allowed employees to charter buses purchased with federal funding.[19]

Management's response:
KCATA discontinued allowing employees to charter buses.

Public Work's response:
Public Works contacted the agency about the findings and requested a response.

[19] Kansas City Area Transportation Authority, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2006.

Metropolitan Ambulance Services Trust (April 30, 2007)

	2005	2006	2007
Funding	$8,637,189	$12,300,000	$13,500,000
Reportable Condition	Yes		
Significant Deficiency			Yes

Significant deficiency:
Metropolitan Ambulance Services Trust's (MAST) auditors noted a full FICA accrual had not been recorded for compensated absences.[20]

Management's response:
MAST management agreed that FICA needed to be accrued for compensated absences and has implemented procedures to do so on an ongoing basis.

Health Department's response:
Health received from MAST copies of the documents verifying the audit adjustment.

[20] Metropolitan Ambulance Services Trust, Management Letter, BKD, LLP, for the year ending April 30, 2007.

New Horizons Assistance Corporation (December 31, 2006)

	2005	2006	2007
Funding	$0	$69,940	$226,441
Reportable Condition			Yes
Noncompliance			Yes

Reportable condition and noncompliance:
New Horizons Assistance Corporation did not record escrow accounts and mortgage refinancing related transactions in the project books.[21]

New Horizons Assistance Corporation did not consistently record intercompany transactions or reconcile intercompany accounts.[21]

Management's response:
New Horizons Assistance Corporation will record year-end mortgage refinancing audit adjustments and will perform monthly reconciliations of intercompany accounts.

Health's response:
Health did not award a new contract to New Horizons Assistance Corporation.

Back to Table of Contents

[21] New Horizons Assistance Corporation, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, Schedule of Findings and Questioned Costs, House Park & Dobratz, P. C., for the year ending December 31, 2006.

Samuel U. Rodgers Health Center, Inc. (September 30, 2006)

	2005	2006	2007
Funding	$457,860	$1,810,185	$1,712,372
Reportable Condition	Yes	Yes	Yes
Noncompliance	Yes	Yes	Yes

Reportable condition and noncompliance:
Samuel U. Rodgers Health Center did not deposit federal funds drawdowns into an interest-bearing account October 1, 2005 through January 31, 2006.[22]

The Center has no formalized control procedures for reviewing and evaluating specific past-due accounts; rebilling denied claims in a timely manner; and determining bad debts by periodically reviewing accounts receivable aging reports from the billing system. Additionally, the Center was not billing and submitting patient services billings on a routine basis.[22]

Management's response:
The Center began depositing federal funds drawdowns into an interest-bearing account. The Center will implement procedures to review patient billings and follow-up on past due receivables. The Center began implementing procedures to ensure that billings for patient services were prepared and submitted on a routine basis.

Health's response:
Health requested and received from the Center copies of the Center's newly implemented procedures and bank statements showing federal funds being deposited into a separate account. Additionally, the department plans to monitor the progress of the Center's adopted procedures.

[22] Samuel U. Rodgers Health Center, Inc., 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, Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Goldstein Golub Kessler, for the year ending September 30, 2006.

Swope Community Builders and Subsidiaries (December 31, 2006)

	2005	2006	2007
Funding	$540,719	$431,122	$710,203
Material Weakness	Yes		
Reportable Condition	Yes	Yes	
Significant Deficiency			Yes
Noncompliance	Yes	Yes	

Significant deficiency:
In their contract with the Full Employment Council, Swope Community Builders did not maintain eligibility documentation on-site nor document monitoring of the vendor's process of determining participant eligibility. Additionally, the agency did not document their monitoring of the 25% exception for participant criteria.[23]

Management's response:
Swope Community Builders now includes eligibility information from the Full Employment Council in their files.

City Development's response:
City Development discussed the finding with the agency.

[23] Swope Community Builders and Subsidiaries, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and on Supplementary Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2006.

Swope Health Services (December 31, 2006)

	2005	2006	2007
Funding	$606,028	$1,313,983	$1,601,209
Significant Deficiency			Yes
Reportable Condition		Yes	

Significant Deficiencies:
Swope Health Services did not completely ensure all vendors' eligibility as the agency was without, for part of the year, an adequate system ensuring that vendors were not suspended or debarred from participation in federal programs.[24]

Swope Health Services filed its prior year reporting package after the deadline. The oversight agency did not grant Swope Health Services an extension.[24]

Swope Health Services did not have a system in place ensuring grant salary and wage charges were supported by personnel activity reports or another method in writing by the cognizant agency documenting actual time worked on the specific program.[24]

Management's response:
Swope Health Services is using alternative procedures for ensuring vendors are not disbarred or suspended by the federal government; filing the reporting package timely; and designing and implementing a reporting process to support charging salaries and wages to federal awards.

Health's response:
Health reviewed Swope Health Services' OMB A-133 report and is planning a monitoring visit to observe Swope's procedures for determining vendor eligibility; discuss what efforts have been taken to ensure reporting packages are submitted timely; and verify the agency's reporting process supports charging salaries and wages to federal awards.

[24] Swope Health Services, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Supplementary Schedule of Expenditure of Federal Awards and on Other Supplementary Information, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2006.

Tax Increment Financing Commission of Kansas City, Missouri (April 30, 2007)

	2005	2006	2007
Funding	$35,324,959	$38,388,136	$40,871,652
Significant Deficiency			Yes
Reportable Condition	Yes	Yes	

Significant deficiency:
The Tax Increment Financing Commission currently does not have an adequate system in place to record and reconcile the amount of TIF receivables from the various taxing authorities.[25]

Management's response:
The Tax Increment Financing Commission has an intergovernmental agreement in place with Clay county and has identical agreements out to Platte and Jackson counties for signatures and implementation. Also, the Commission continues to work with the city to improve the process.

City Development's response:
City Development staff discussed the finding with Commission staff.

[25] Tax Increment Financing Commission of Kansas City, Missouri, 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, Cochran Head Vick & Co., P.C., for the year ending April 30, 2007.

Truman Medical Center, Inc. (June 30, 2007)

	2005	2006	2007
Funding	$16,817,225	$25,827,151	$25,141,817
Significant Deficiency			Yes
Noncompliance			Yes

Significant deficiency and noncompliance:
Certain Truman Medical Center, Inc. employees used gift cards for personal use and submitted false expense reimbursement requests and invoices.[26]

Management's response:
Truman Medical Center, Inc. updated the travel and expense reimbursement policy to strengthen controls and provided training regarding the policies.

Health's response:
Health is currently reviewing Truman Medical Center's OMB A-133 audit and is scheduled to conduct a financial monitoring visit to verify corrective actions have been implemented.

Back to Table of Contents

[26] Truman Medical Center, Inc., Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD, LLP, for the year ending June 30, 2007.

Twelfth Street Heritage Development Corporation (May 31, 2006)

	2005	2006	2007
Funding	$150,579	$159,567	$467,198
Qualified Opinion	Yes		
Material Weakness	Yes		
Significant Deficiency			Yes
Reportable Condition	Yes	Yes	

Reportable condition:
Twelfth Street Heritage Development Corporation's (TSHDC) external auditor noted inadequate accounting and record keeping in the following areas: costs incurred for project construction were recorded by TSHDC as an increase in the cost of sales account instead of in the construction in progress account; TSHDC did not adequately record payroll costs from March to May 2006 resulting in a variance of $10,709 from the payroll costs reported to federal authorities; and TSHDC failed to recognize and record in-kind contributions and donations.[27]

TSHDC's auditors noted the following departures from the agency's policies and procedures: checks prepared and written by TSHDC were put on hold, sometimes for longer than 60 days, before being released to the designated payee; TSHDC did not prepare bank reconciliations monthly and prepared no bank reconciliations from March to May 2006; and 12 checks totaling more than $5,500 did not clear the bank.[27]

Management response:
TSHDC reported to City Development that TSHDC would maintain files on all property held for development and for houses in construction, reviewing files quarterly; record financial data consistently; implement the use of a form documenting in-kind contributions; process checks in a timely manner; and reconcile financial data monthly.

City Development's response:
City Development asked TSHDC to provide a copy of their response to the management letter.

[27] Twelfth Street Heritage Development Corporation, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards, Description of Findings, JMA Chartered, for the year ending May 31, 2006.

Twelfth Street Heritage Development Corporation (May 31, 2007)

	2005	2006	2007
Funding	$150,579	$159,567	$467,198
Qualified Opinion	Yes		
Material Weakness	Yes		
Significant Deficiency			Yes
Reportable Condition	Yes	Yes	

Significant deficiency:
Twelfth Street Heritage Development Corporation (TSHDC) did not correctly record construction in progress accounts of two houses and did not have adequate support for payments to a General Contractor totaling $8,211. Also, TSHDC did not record the construction costs, loan proceeds, nor account for the transaction at the time of sale for a house TSHDC rehabilitated and sold during the year.[28]

TSHDC did not conform to established accounting policies and procedures as deposits and payments of $7,444 and $15,609, respectively, were outstanding for more than a year and were not cleared in the subsequent period. Also, a bank reconciliation statement was not prepared correctly.[28]

TSHDC did not have all expenditures adequately supported with documentation as 6 of 25 disbursements tested by the auditors lacked supporting documentation and 2 other expenditures were only supported with canceled checks. Additionally, the agency did not record the CEO/President's expenditures until TSHDC paid the credit card on which he placed the expenditures resulting in $4,375 in unaccounted expenses and liabilities. Also, TSHDC's auditors could not determine the appropriateness of $55,000 paid to a third party because of a lack of supporting documentation.[28]

Management's response:
TSHDC contracted with a firm to strengthen its fiscal and management controls and will establish policies and procedures to allow repayment of non-TSHDC related credit card debit through payroll deductions or other means.

City Development's response:
City Development plans to review how TSHDC is addressing the findings at their next site monitoring visit with the agency.

[28] Twelfth Street Heritage Development Corporation, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Description of Findings, JMA Chartered, for the year ending May 31, 2007.

Union Station Kansas City, Inc. and Subsidiary (December 31, 2006)

	2005	2006	2007
Funding	$1,302,289	$1,186,857	$1,384,857
Material Weakness			Yes
Significant Deficiency			Yes

Material weaknesses and significant deficiencies:
Union Station Kansas City, Inc.'s control environment did not sufficiently promote effective internal control over financial reporting throughout the organization. Specifically, a sufficient complement of skilled accounting resources did not exist as of December 31, 2006 to prepare monthly and annual financial statements and to perform supervisory reviews and monitoring activities over financial reporting matters and controls.[29]

Union Station Kansas City, Inc. lacked documented controls over the financial reporting process and preparation of financial statements and footnotes, including consistent management review for accuracy, completeness, and compliance with generally accepted accounting principles.[29]

Management's response:
Union Station Kansas City, Inc. hired a chief financial officer in March 2007, who has reorganized and strengthened the agency's finance department by adding staff and re-establishing the control environment.

General Services' response:
General Services is working with Union Station Kansas City to develop effective internal controls and process improvements.

[29] Union Station Kansas City, Inc., Management Letter Comments, KPMG, LLP, for the year ending December 31, 2006.

Westside Housing Organization, Inc. and Subsidiaries (May 31, 2007)

	2005	2006	2007
Funding	$161,198	$139,573	$114,271
Reportable Condition			Yes

Reportable Conditions:
Westside Housing Organization did not accrue a liability on potential claims against a one-year warranty on property the organization sells.[30]

Westside Housing Organization has several substantial accounts receivables past due, severely affecting the organization's cash flows.[30]

Management's response:
Westside Housing Organization began accruing a warranty amount for all homes sold where the agency is the general contractor and is refinancing properties through re-syndication of several rental properties to address the receivables and is working with limited partners to resolve outstanding payments due.

City Development's Response:
City Development forwarded a copy of the findings to Westside Housing Organization, asking them to respond.

[30] Westside Housing Organization Inc. and Subsidiaries, Management Letter Comments, Miller, Haviland, Ketter, P.C., P.A., for the year ending May 31, 2007.

Financial Analysis for Liquidity, Performance, and Long Term Stability

The financial condition of 9 of the 12 agencies that received $1 million or more of funding in 2007 is of concern. Four of these agencies should be watched as ratios for two of three financial indicators were not met. Results for five of the remaining agencies are mixed as one of the three indicators were not met.

The city has a significant stake in agencies that receive more than $1 million dollars in funding. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To keep the Council informed of the financial condition of these agencies, we calculated several financial ratios or measures for the agencies receiving $1 million or more from the city during fiscal year 2007.

We evaluated the financial condition of the outside agencies based on three broad financial indicators. These indicators were selected to examine liquidity (current ratio and days of cash on hand), performance (change in unrestricted net assets and operating margin), and long term stability (debt to net assets, fixed asset financing for hospitals). Because no single ratio gives a complete picture of the financial health of an organization, ratios and financial data should be viewed together to obtain an overall sense of an organization. (Appendix C contains additional information on the financial indicators. Each is briefly explained and the method of calculation defined.)

Criteria for Financial Condition

We established evaluation criteria to determine whether an agency's financial condition was positive, mixed, or needs to be watched. We calculated financial ratios and measures and compared the results with selected criteria. (See Exhibit 6.)

Exhibit 6. Financial Condition Indicators

Indicator	Financial Ratio/Measure	Criteria
Liquidity	Current Ratio	Greater than 1
Liquidity	Cash on Hand	More than 30 days of cash
Performance	Unrestricted Net Assets	Increase
Performance	Operating Margin	Positive
Long-Term Stability	Debt to Net Asset Ratio or Fixed Asset Financing Ratio[31]	Less than 50 percent

If ratios for all three indicators (liquidity, performance, and long-term stability) met our criteria, we consider the agency's financial position to be positive. If criteria for one of the indicators were not met, we consider the agency's financial position to be mixed. If two indicators were not met or an agency did

[31] For hospitals the long-term stability indicator is measured by the fixed asset financing ratio.

not provide their financial report for inclusion in our analysis, we believe the agency should be watched. Four of the agencies receiving $1 million or more from the city in 2007 should be watched based on our analysis. (See Exhibit 7.)

Exhibit 7. Financial Condition of Agencies Receiving $1 Million or More in 2007

Agency	Financial Condition
Children's Mercy Hospital	Mixed
Convention and Visitors Bureau of Greater Kansas City	Watch
Economic Development Corporation of Kansas City, Mo.	Watch
Friends of the Zoo, Inc., of Kansas City, Missouri	Positive
Kansas City Area Transportation Authority	Positive
Kansas City Free Health Clinic	Mixed
Metropolitan Ambulance Services Trust	Mixed
Samuel U. Rodgers Health Center, Inc.	Watch
Swope Health Services	Positive
Tax Increment Financing Commission of Kansas City, Mo.	Mixed
Truman Medical Center, Inc.	Watch
Union Station Kansas City, Inc. and Subsidiary	Mixed

Source: City Auditor's Office.

Children's Mercy Hospital's financial condition is mixed. While Children's Mercy Hospital's liquidity and performance ratios were positive, its long-term stability indicator (fixed asset financing ratio) did not meet our criteria. (See Exhibit 8.)

Exhibit 8. Children's Mercy Hospital Financial Ratios

Measure	Audit Year Ending				
	6/30/03	6/30/04	6/30/05	6/30/06[32]	6/30/07[32]
Current Ratio	1.89	2.27	2.18	2.64	2.48
Days of Cash on Hand	39	36	19	34	79
Change in Unrestricted Net Assets	$15,092,662	($103,739,358)	$4,825,014	$13,164,000	$48,626,000
Operating Margin[33]	(1%)	(1%)	(1%)	(1%)	6%
Fixed Asset Financing[33]	44%	38%	37%	37%	61%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Convention and Visitors Bureau of Greater Kansas City's financial condition should be watched. While the agency's performance indicators are positive, the agency's long-term liability indicator (debt to net assets) and days of cash on hand did not meet our criteria. (See Exhibit 9.)

[32] Children's Marcy Hospital's external auditor rounded numbers to the nearest thousands (000s) for 2006 and 2007.
[33] Because hospitals are unique from other non-municipal agencies, we used two different ratios for hospitals. We calculated the agency's fixed asset financing ratio in place of the debt to net assets ratio to determine its liquidity indicator. Also, we calculated operating margin by dividing operating income by the sum of unrestricted revenues and non-operating income.

Exhibit 9. Convention and Visitors Bureau of Greater Kansas City Financial Ratios

Measure	Audit Year Ending				
	4/30/03	12/31/03[34]	12/31/04	12/31/05	12/31/06
Current Ratio	1.73	0.98	0.85	1.21	1.16
Days of Cash on Hand	15	36	18	20	9
Change in Net Assets	($260,019)	($609,340)	($80,846)	$467,190	$164,837
Operating Margin	(4%)	(13%)	(1%)	5%	2%
Debt to Net Assets	401%	Negative[35]	Negative[35]	1,739%	625%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Economic Development Corporation of Kansas City, Missouri's financial condition should be watched. While performance indicators are positive, the agency's liquidity (current ratio and days of cash on hand) and long-term stability (debt to net assets) indicators did not meet our criteria. (See Exhibit 10.)

Exhibit 10. Economic Development Corporation of Kansas City, Missouri, Financial, Ratios

Measure	Audit Year Ending				
	4/30/03	4/30/04	4/30/05	4/30/06	4/30/07
Current Ratio	0.51	1.08	0.73	0.20	0.36
Days of Cash on Hand	15	6	8	5	22
Change in Net Assets	($296,684)	($182,845)	$249,040	($447,147)	$133,511
Operating Margin	(8%)	(5%)	5%	(12%)	3%
Debt to Net Assets	Negative[36]	Negative[36]	Negative[36]	Negative[36]	Negative[36]

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Friends of the Zoo, Inc., of Kansas City, Missouri's financial condition is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 11.)

Exhibit 11. Friends of the Zoo, Inc., of Kansas City, Missouri, Financial Ratios

Measure	Audit Year Ending				
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Current Ratio	5.70	5.01	5.87	8.43	10.98
Days of Cash on Hand	103	115	135	146	197
Change in Unrestricted Net Assets	($490,820)	($1,866,533)	$67,895	$95,890	$721,763
Operating Margin	(3%)	(16%)	1%	1%	5%
Debt to Net Assets	59%	74%	50%	31%	13%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

34 For the eight months ending December 31, 2003.
35 The Convention and Visitors Bureau of Greater Kansas City reported negative net assets of $266,595 as of December 31, 2003 and negative net assets of $347,441 as of December 31, 2004.
36 The Economic Development Corporation of Kansas City, Missouri reported negative net assets of $79,580 as of April 30, 2003; negative net assets of $262,425 as of April 30, 2004; negative net assets of $13,385 as of April 30, 2005; negative net assets of $460,532 as of April 30, 2006; and negative net assets of $327,021 as of April 30, 2007.

The Kansas City Area Transportation Authority's financial condition is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 12.)

Exhibit 12. Kansas City Area Transportation Authority Financial Ratios

Measure	Audit Year Ending				
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Current Ratio	1.63	1.51	1.93	1.22	1.30
Days of Cash on Hand	281	253	286	345	349
Change in Net Assets	$10,327,361	$3,861,489	$10,864,745	$14,280,908	$8,798,582
Operating Margin	14%	6%	14%	17%	10%
Debt to Net Assets	21%	17%	13%	14%	13%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Kansas City Free Health Clinic's financial condition is mixed. While the agency's liquidity and long-term stability indicators are positive, the Clinic's performance indicators did not meet our criteria as unrestricted net assets decreased and operating margin was negative. (See Exhibit 13.)

Exhibit 13. Kansas City Free Health Clinic Financial Ratios

Measure	Audit Year Ending				
	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07
Current Ratio	4.86	6.34	5.37	4.22	3.86
Days of Cash on Hand	54	42	36	27	37
Change in Unrestricted Net Assets	$145,756	$14,790	$30,314	$44,832	($45,200)
Operating Margin	3%	0.24%	0.46%	1%	(1%)
Debt to Net Assets	21%	15%	14%	9%	11%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Metropolitan Ambulance Services Trust's financial condition is mixed. While MAST's liquidity and performance indicators are positive, the long-term stability indicator (debt to net assets) did not meet our criteria. (See Exhibit 14.)

Exhibit 14. Metropolitan Ambulance Services Trust Financial Ratios

Measure	Audit Year Ending				
	4/30/03	4/30/04	4/30/05	4/30/06	4/30/07
Current Ratio	1.19	1.67	2.07	2.69	4.35
Days of Cash on Hand	0.01	0.19	6	69	111
Change in Net Assets	($163,599)	$2,370,676	$20,601	$512,700	$4,139,564
Operating Margin	(0.6%)	7%	0.1%	2%	13%
Debt to Net Assets	183%	125%	108%	116%	59%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The financial condition for Samuel U. Rodgers Health Center, Inc. should be watched. While performance indicators are positive, one of the liquidity indicators (days of cash on hand) and the long-term stability indicator (debt to net assets) did not meet our criteria. (See Exhibit 15.)

Exhibit 15. Samuel U. Rodgers Health Center, Inc. Financial Ratios

	Audit Year Ending				
Measure	9/30/02	9/30/03	9/30/04	9/30/05	9/30/06
Current Ratio	1.17	1.15	1.03	0.55	1.21
Days of Cash on Hand	9	7	7	3	25
Change in Unrestricted Net Assets	($502,228)	$62,778	($346,791)	($1,012,607)	$1,671,306
Operating Margin	(4%)	0%	(3%)	(8%)	11%
Debt to Net Assets	93%	104%	146%	228%	70%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The financial condition for Swope Health Services is positive. The agency's liquidity, performance, and long-term stability indicators are positive. (See Exhibit 16.)

Exhibit 16. Swope Health Services Financial Ratios

	Audit Year Ending				
Measure	12/31/02[37]	12/31/03[38]	12/31/04[38]	12/31/05[38]	12/31/06[38]
Current Ratio	3.45	3.64	3.73	4.70	4.35
Days of Cash on Hand	109	107	143	115	155
Change in Unrestricted Net Assets	($1,221,312)	$776,936	$428,482	$980,903	$291,133
Operating Margin	(4%)	2%	1%	3%	1%
Debt to Net Assets	26%	31%	33%	14%	16%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Back to Table of Contents

[37] Ratios based on financial statements of the parent agency (Swope Health Services).
[38] Ratios based on the consolidated financial statements of Swope Health Services.

Tax Increment Financing Commission of Kansas City, Missouri's financial position is mixed. While liquidity and performance indicators are positive TIF's long-term stability indicator did not meet our criteria as the Commission's debt exceeded 50 percent of fund balance. (See Exhibit 17.)

Exhibit 17. Tax Increment Financing Commission of Kansas City, Missouri, Financial Ratios

	Audit Year Ending				
Measure[39]	4/30/03	4/30/04	4/30/05	4/30//06	4/30/07
Current Ratio	1.67	1.79	1.37	2.84	17.14
Days of Cash on Hand	179	170	187	275	211
Change in Revenues and Other Sources over Expenditures and Other Financing Uses	$10,420,389	$5,025,148	$19,308,357	$19,696,063	$9,306,606
Operating Margin	27%	10%	30%	30%	15%
Debt to Fund Balance	1024%	836%	784%	620%	575%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Truman Medical Center's financial position should be watched. While Truman's long-term stability indicator is positive, its days of cash on hand, change in unrestricted net assets, and operating margin did not meet our criteria. (See Exhibit 18.)

Exhibit 18. Truman Medical Center, Inc. Financial Ratios

	Audit Year Ending				
Measure	4/30/03	6/30/04[40]	6/30/05	6/30/06	6/30/07
Current Ratio	2.32	2.09	2.11	1.67	1.30
Days of Cash on Hand	19	13	20	10	6
Change in Unrestricted Net Assets	$1,610,112	$1,129,969	$523,687	($9,638,343)	($10,959,984)
Operating Margin[41]	0.2%	(1%)	0.3%	(5%)	(5%)
Fixed Asset Financing[41]	60%	53%	48%	43%	45%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

[39] For the Tax Increment Financing Commission the agency's fund balance and excess of revenues and other sources over (under) expenditures and other financing are more relevant measures of the Commission's financial health than net assets and unrestricted net assets.

[40] The 2004 financial ratios for Truman Medical Center, Inc. are based on a 14-month period.

[41] Because hospitals are unique from other non-municipal agencies, we used two different ratios for hospitals. We calculated the agency's fixed asset financing ratio in place of the debt to net assets ratio to determine its liquidity indicator. Also, we calculated operating margin by dividing operating income by the sum of unrestricted revenues and non-operating income.

Union Station Kansas City's financial condition is mixed. While Union Station's long-term stability and performance indicators were positive, one of its liquidity indicators (current ratio) did not meet our criteria. (See Exhibit 19.)

Exhibit 19. Union Station Kansas City, Inc. Financial Ratios

Measure	Audit Year Ending 12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Current Ratio	1.61	1.52	0.67	0.36	0.73
Days of Cash on Hand	188	30	19	24	36
Change in Unrestricted Net Assets	($8,134,530)	($16,720,793)	($13,662,111)	($5,706,500)	$23,959,014
Operating Margin	(35%)	(148%)	(121%)	(30%)	51%
Debt to Net Assets	15%	15%	22%	24%	4%

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Back to Table of Contents

Appendix A

Summary of Reports Reviewed and Findings of Commercial Auditors

Summary of Reports Reviewed and Findings of Each Agency's Commercial Auditors

Agency	Audit Year Ending	Type of Opinion	Material Weakness[42]	Reportable Condition or Significant Deficiency[42]	Non-Compliance[43]	Funding for FY 2007
American Jazz Museum, Inc.	4/30/2007	Unqualified	No	No	No	$ 624,000
Black Economic Union of Greater Kansas City	12/31/2006	Unqualified	No	No	***Yes***	179,024
Blue Hills Community Services Corporation and Subsidiaries	8/31/07	Unqualified	No	No	No	129,757
Bridging the Gap, Inc.	4/30/2007	Unqualified	***Yes***	***Yes***	N/P	411,200
Cabot Westside Health Center	12/31/2006	Unqualified	N/P	N/P	N/P	491,163
Children's Mercy Hospital	6/30/2007	Unqualified	N/P	N/P	N/P	1,400,000
Community Assistance Council, Inc.	5/31/2007	Unqualified	No	No	N/P	239,253
Community Development Corporation of Kansas City and Subsidiaries	2/28/2007	Unqualified	***Yes***	***Yes***	No	104,828
Community LINC	12/31/2006	Unqualified	No	No	No	131,183
Convention and Visitors Bureau of Greater Kansas City	12/31/2006	Unqualified	N/P	N/P	N/P	7,440,860
Downtown Kansas City Community Improvement District	4/30/2007	Unqualified	No	***Yes***	N/P	169,354
Economic Development Corporation of Kansas City, Mo.	4/30/2007	Unqualified	No	No	No	1,216,300
Family Conservancy, Inc.	12/31/2006	Unqualified	No	No	No	124,227
Friends of the Zoo, Inc., of Kansas City, Missouri	12/31/2006	Unqualified	No	No	N/P	3,243,632
Good Samaritan Project, Inc.	12/31/2006	Unqualified	No	***Yes***	No	542,834
Greater Kansas City Housing Information Center	12/31/2006	Unqualified	No	No	No	219,049
Guadalupe Centers, Inc.	12/31/2006	Unqualified	No	No	No	368,506
Harvesters – The Community Food Network	6/30/2007	Unqualified	***Yes***	***Yes***	No	771,849

[42] N/P indicates an internal control report was not provided.
[43] N/P indicates a compliance report was not prepared. Only agencies expending at least $500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Agency	Audit Year Ending	Type of Opinion	Material Weakness[44]	Reportable Condition or Significant Deficiency[44]	Non-Compliance[45]	Funding for FY 2007
Hispanic Economic Development Corporation of Greater Kansas City	5/31/2007	Unqualified	***Yes***	***Yes***	N/P	121,120
Hope House, Inc.	9/30/2006	Unqualified	No	No	No	$ 130,309
Hope House, Inc.	9/30/2007	Unqualified	No	No	No	130,309
Ivanhoe Neighborhood Council	12/31/2006	Unqualified	N/P	N/P	N/P	117,522
Kansas City Area Transportation Authority	12/31/2006	Unqualified	No	***Yes***	***Yes***	46,801,115
Kansas City Free Health Clinic	3/31/2007	Unqualified	No	No	No	1,770,489
Land Clearance for Redevelopment Authority	4/30/2007	Unqualified	No	No	No	130,908
Legal Aid of Western Missouri	12/31/2006	Unqualified	No	No	No	782,594
Liberty Memorial Association	12/31/2006	Unqualified	No	No	N/P	796,677
Metropolitan Ambulance Services Trust	4/30/2007	Unqualified	No	***Yes***	N/P	13,500,000
New Horizons Assistance Corporation	12/31/2006	Unqualified	No	***Yes***	***Yes***	226,441
Newhouse	12/31/2006	Unqualified	No	No	No	182,349
Northland Health Care Access	12/31/2006	Unqualified	No	No	N/P	416,002
Northland Neighborhoods, Inc.	5/31/2007	Unqualified	No	No	No	320,589
Operation Breakthrough, Inc.	10/31/2006	Unqualified	No	No	No	939,642
Planned Industrial Expansion Authority of Kansas City, Mo.	4/30/2007	Unqualified	No	No	No	150,000
reStart, Inc.	12/31/2006	Unqualified	No	No	No	645,177
Rose Brooks Center, Inc.	6/30/2007	Unqualified	No	No	No	155,419
Salvation Army	9/30/2006	Unqualified	No	No	No	217,053
Samuel U. Rodgers Health Center, Inc.	9/30/2006	Unqualified	No	***Yes***	***Yes***	1,712,372
SAVE, Inc. and Affiliates	6/30/2007	Unqualified	No	No	No	993,487
Swope Community Builders and Subsidiaries	12/31/2006	Unqualified	No	***Yes***	No	710,203
Swope Health Services	12/31/2006	Unqualified	No	***Yes***	No	1,601,209

[44] N/P indicates an internal control report was not provided.
[45] N/P indicates a compliance report was not prepared. Only agencies expending at least $500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Agency	Audit Year Ending	Type of Opinion	Material Weakness[46]	Reportable Condition or Significant Deficiency[46]	Non-Compliance[47]	Funding for FY 2007
Tax Increment Financing Commission of Kansas City, Mo.	4/30/2007	Unqualified	No	***Yes***	No	40,871,652
Truman Medical Center, Inc.	6/30/2007	Unqualified	No	***Yes***	***Yes***	25,141,817
Twelfth Street Heritage Development Corporation	5/31/2006	Unqualified	No	***Yes***	No	467,198
Twelfth Street Heritage Development Corporation	5/31/2007	Unqualified	No	***Yes***	No	467,198
Union Station Kansas City, Inc. and Subsidiary	12/31/2006	Unqualified	***Yes***	***Yes***	N/P	1,384,857
United Services Community Action Agency	9/30/2006	Unqualified	No	No	No	128,270
Westside Housing Organization, Inc. and Subsidiaries	5/31/2007	Unqualified	No	***Yes***	N/P	114,271

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

[46] N/P indicates an internal control report was not provided.
[47] N/P indicates a compliance report was not prepared. Only agencies expending at least $500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Appendix B

Definitions of Deficiencies

Qualified Opinion

Auditors issue a qualified opinion when they see departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. Except for the effects of the matters to which the qualification relates, the financial statements fairly present, in all material respects, the entity's financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

Material Weakness

A material weakness is a significant deficiency in which the design or operation of specific internal controls does not ensure that errors or irregularities material to the financial statements will be detected promptly by employees in the normal course of their work. A material weakness is also a reportable condition; however, reportable conditions are not always serious enough to be material weaknesses (for audit periods ending on or before December 15, 2006).

A material weakness is a control deficiency or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. A material weakness is also a significant deficiency however, a significant deficiency is not always serious enough to be a material weakness (for audit periods ending after December 15, 2006).

Reportable Condition

Reportable conditions are deficiencies in the design or operation of an entity's internal control structure that could adversely affect the entity's ability to record and report financial data. Reportable conditions are of a less serious nature than material weaknesses.

Significant Deficiency

A significant deficiency is a control deficiency, or a combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Noncompliance

Noncompliance occurs when an entity does not execute transactions in conformity with laws, regulations, provisions of contracts, awards, or grant agreements, or other compliance requirements. Non-municipal agencies that expend federal awards of at least $500,000 in direct or pass through funding in a year, fall under the reporting requirements of OMB A-133, which requires an audit, including an examination of compliance. Auditors for agencies not falling under OMB A-133 requirements may evaluate compliance as part of their examination of internal controls.

Back to Table of Contents

Appendix C

Financial Analysis Methodology

Financial Analysis Methodology

Not everyone calculates ratios using the same definitions. The definitions used for our analysis came from *Financial Management for Public, Health and Not-for-Profit Organizations* by Steven A. Finkler[48] and from the Center for Healthcare Industry Performance Studies for our calculation of the fixed asset financing ratio and operating margin for hospitals.

Liquidity Indicators

Liquidity ratios assess short-term risks. They focus on whether an organization has enough cash and liquid resources to meet near term obligations. We calculated two liquidity ratios, the current ratio and the days of cash on hand.

Current Ratio. The current ratio is one of the most common measures of liquidity. It compares an entity's current assets (those assets that become cash or are used up within a year) to current liabilities (liabilities due within a year). This ratio measures an organization's ability to meet obligations as they become due. If the current ratio is too low, an organization may not be able to meet its obligations. If the ratio is very high, resources might be more productively employed in other ways. We consider a current ratio greater than one to be positive.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Days of Cash on Hand. Days of cash on hand is another widely used liquidity ratio. It measures how long an organization could meet its daily expenses using just the resources on hand. It compares cash and near cash assets to daily operating expenses. Bad debt and depreciation are excluded from operating expenses because they do not require a cash outflow. Too low a ratio suggests that an agency couldn't meet its obligations if something happened that cut off future cash inflows. Too high a ratio suggests that cash could be better utilized to provide resources or services. We consider more than 30 days of cash on hand to be positive.

$$\text{Days of Cash on Hand} = \frac{\text{Cash + Marketable Securities}}{\text{(Operating Expenses-Bad Debt-Depreciation)/365}}$$

[48] Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, New Jersey: Prentice Hall, 2001).

Performance Indicators

While public service organizations do not provide services primarily to make a profit, organizations need to earn income to be financially healthy, to improve and expand services, and to meet future challenges. Financial resources are a means to an end. Without adequate financial resources, an organization generally can not achieve its mission. To measure financial performance, we examine two indicators, the change in unrestricted net assets and the operating margin.

Change in Unrestricted Net Assets. Not-for-profits and governmental organizations use the term net assets. Net assets, owners' equity, and fund balance consist of amounts that have been contributed to an organization and profits or surpluses that have been earned and retained over time. These terms represent the residual amount when liabilities are subtracted from assets. Net assets may be unrestricted, temporarily restricted, and permanently restricted. Increases in net assets are generally caused by revenues and decreases are generally caused by increasing expenses. In some instances we use an agency's change in net assets when the change in unrestricted net assets is not reported. We consider this trend to be positive if unrestricted net assets or net assets increased.

Operating Margin. Operating margin generally measures the percent of earnings (operating revenue less operating expenses) generated for each dollar of operating revenue received. For not-for-profit entities, this ratio compares the change in unrestricted net assets with total unrestricted revenues and other support. In some instances we use change in net assets and change in revenues and other support when unrestricted figures are not reported. A positive percentage would indicate that the organization earned so many cents for every dollar of revenue. A negative ratio indicates an entity's operating expenses are greater than its operating revenues and the entity is consuming operating reserves. We view a positive operating margin as desirable.

$$\text{Operating Margin} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues and Other Support}}$$

For hospital we calculated operating margin as operating income (operating revenue less operating expenses) divided by the total of unrestricted revenues and non-operating revenues.

$$\text{Operating Margin} = \frac{\text{Operating Income}}{\text{Total Unrestricted Revenues and Non-operating Revenues}}$$

Long Term Stability Indicators

While liquidity ratios are used to assess an organization's ability to meet short term obligations, debt to net assets assesses the long term viability of an agency.

Debt to Net Assets and Fixed Asset Financing. The debt to net asset ratio measures the extent to which an organization supports its activities by using debt. The ratio calculates the amount of debt used to finance the acquisition of its assets. The ratio is calculated by dividing an agency's total debt by its net assets. Net assets are a measure of equity. Debt ratios can be calculated using a range of different definitions for debt. We use total liabilities. Debt allows agencies to undertake programs and enhance services that they otherwise could not do. Excessive debt levels risk the continued existence of an agency.

$$\text{Debt to Net Assets} = \frac{\text{Total Debt}}{\text{Total Net Assets}}$$

For hospitals we calculated the fixed asset financing ratio. This ratio is calculated by dividing long-term debt by net fixed assets.

$$\text{Fixed Asset Financing} = \frac{\text{Long-term Debt}}{\text{Net Fixed Assets}}$$

Percentages less than 50 percent are desirable. Some agencies have negative net assets. Net assets are negative when an agency's liabilities are greater than their total assets. We did not calculate the debt to net assets ratio when an agency's net assets were negative.

Back to Table of Contents