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Independent Accountant's Report on Applying Agreed-Upon Procedures

I have applied certain agreed upon procedures, as discussed below, to the accounting records of the City of Gautier, Mississippi for the Fiscal Year 2012. This report is a matter of public record and its distribution is not limited. The City Clerk is responsible for the Municipality's accounting records. This agreed-upon engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. My procedures and findings are as follows:

A. I performed an analysis of the FY 2012 budget. As a part of this analysis, I reviewed the FY 2012 budget as approved in the minutes of the City, and compared the amounts included in that budget to the amounts included in the City's budget accounting records.

My report was prompted by the advisory from the City Manager (Manager) that the City Clerk (Clerk) had not been forthcoming about omissions in the budget made known to her by her staff in December of 2011. Upon recommendation of the Manager, this prompted the Council to approve this engagement.

As a result of my analysis and review, I present the following remarks.

Amounts included in the City's budget must be the amounts approved by the City Council (Council), either in the original budget approved by the Council or as subsequent budget amendments approved by the Council. The following amounts are included in the FY 2012 General Fund budget in the City's accounting system, but were not included in the budget approved by the City Council in September of 2011, nor were they approved by subsequent budget amendments.

1. Projected revenues of $ 758,301. This is the estimated amount to be collected from the 6.75 millage assessment included in the FY 2012 millage rate.

2. Projected revenues of $ 8,939. This is the estimated amount to be received from the Hazard Mitigation Grant.

3. Projected revenues of $ 86,161. The source of this revenue is not specified. I contacted the City Clerk in an effort to determine the source of this revenue and she replied that she did not know.

Additionally, I noted the following.

Included in the City's General fund budget is $114,504 in revenues as lease purchase proceeds. This amount was included in the original General Fund budget approved by the Council. However the expenditure was included in another fund. It is improper governmental accounting to include a revenue in one fund and the corresponding expenditure in another fund. I asked the City Clerk why these amounts were included in two different funds and she replied that she did not know.

B. I also reviewed the presentation of the FY 2012 budget in the minutes of September 2011, as approved by the Council.

As a result of my review, I noted the following.

1. The projected ending cash balance for FY 2011 does not agree with the beginning cash balance for FY 2012. Although this amount is an estimate, the two should agree.

2. The General Fund Budget is out of balance by $ 845,023.

3. As with the General Fund, the Water and Sewer Utility Fund ending balance for FY 2011 does not agree with the beginning balance for FY 2012. This again is only an estimate, but the two should agree. As a result, the budget, as presented is out of balance.

4. The Solid Waste Fund, as presented, does not balance. The budget (in summary) is presented as follows:

Total available cash and anticipated revenues	$ 1,613,738.14
Total Expenditures	$ 1,318,094.00
Year End Balance	$ 296,643.14
Balance	$ 296,643.14

Clearly, the sum of $ 1,318,094.00 and $ 296,643.14 does not equal $ 296,643.14.

5. In the Capital Improvement Bond Issue Fund, There is no year end balance presented. Therefore, the budget, as adopted, is not in balance. The adopted budget (in summary) is as follows:

Total available cash and anticipated revenue	$ 5,157,092.55
Expenditures – Capital Improvements	$ 4,674,417.55
Year End Balance	$ - .
Balance	$ - .

Clearly, no ending cash is presented, nor is a balance presented.

6. The Fire Protection fund arithmetic total is not correct, as presented.

Total Expenditures	$ 90,853.00
Year End Balance	$ 290,489.31
Balance	$ 290,489.31

Again, clearly, the sum is not correct.

C. I also reviewed the year to date budget amendments adopted by the Council in FY 2012.

As a result of my review, I noted the following.

In the Minutes of December 6, 2011 a budget amendment is presented to increase the budget in the General Fund, Legislative, Travel and Training line item from $3,000 to $3,965. The budget increase is clearly stated, but there is no source indicated for the funding for the increase, nor a decrease in another expenditure line item. According to The Office of The State Auditor (OSA), when there is no corresponding line item decrease for a line item increase, then ending cash must be adjusted for the Fund in which the increase is proposed.

Included in the minutes of the same meeting is an amendment as follows:

	Budget	Amendment	New Budget
Building & Facilities			
Contracted Services	$ 60,000	$ 34,000	$ 94,000
Improvements to Building	$ 6,000	$ 32,619	$ 38,619

Following this there is revenue amendment to provide for the funding for these amendments totaling $64,619. However, the revenue is amended for $32,620, not for $64,619.

Included in the minutes of the same meeting is an amendment as follows:

$7 M Capital Improvement Bond Fund			
Street Improvements	$ -	$1,500,000	$1,500,000
Building Construction	$ -	$ 607,759	$ 607,759
Water System Improvements	$ -	$ 5,095	$ 5,095
Bond Issue Costs	$ -	$ 121,396	$ 121,396

There is no offset to another expenditure account. MS Code Sec. 21-35-25 indicates that a transfer can be made from another line item, but the minutes do not evidence a transfer from another line item. This is bad form, because, technically, the budget for the FY 2011 $ 7 Million Bond Budget is budgeting a deficit, as follows:

Total available cash and anticipated revenue	$ 7,000,000.00
Expenditures – Capital Improvements	$ 7,000,000.00
Street Improvements	$ 1,500,000.00
Building Construction	$ 607,759.00
Water System Improvements	$ 5,095.00
Bond Issue Costs	$ 121,396.00
Total Expenditures	$ 9,234,250.00
Projected FY 2011 Deficit	$(2,234,250.00)

The amendment should have been presented as follows:

Street Improvements	$ -	$ 1,500,000	$1,500,000
Building Construction	$ -	$ 607,759	$ 607,759
Water System Improvements	$ -	$ 5,095	$ 5,095
Bond Issue Costs	$ -	$ 121,396	$ 121,396
Capital Improvements	$ 7,000,000	$(2,234,250)	$4,765,750

Additionally, both of these amendments were made in December of 2011, three months after the 2011 Fiscal Year was ended. Although this is not a violation of the Statute, according to OSA, the budget is for internal control purposes. It is impossible to control expenditures with budget amendments prepared and approved three months after the expenditure has been made. Under Governmental Auditing Standards, since this is an internal control matter, it will be required to be included as a comment in the Report on Internal Control in the City's Independent Audit Report.

D. I reviewed the internal control over cash in the General Fund for FY 2012.

One of the most critical responsibilities of the City Clerk is control over cash balances.

An important component of any budget for the next fiscal year is the beginning cash for that fiscal year because it will be a funding resource. That amount is also the ending cash for the current fiscal year. Since the budget for the subsequent fiscal year is prepared during the current fiscal year, the ending cash for the current fiscal year is, of necessity, only a projection, and at best is only an educated estimate. However, once the current fiscal year is closed, the ending cash is established, and the following fiscal year beginning cash is adjusted from the projected amount to the actual amount. Also, as the budget is amended during the fiscal year, as a fiscal control measure, adjustments should be made to that amount as amendments are approved.

The City Clerk stated that she had not made any adjustment of the budgeted beginning cash to the actual carryover, nor any adjustments to the budgeted cash balance as budget amendments were approved. If a control total had been kept, the following would be presented (rounded to the nearest thousand).

Beginning cash as Budgeted for October 1, 2011 (FY 2012)		$ 961,000
Actual ending cash at September 30, 2011	$ 361,000	
Beginning cash as budgeted	$ 961,000	
Adjustment		$(600,000)
Adjusted beginning cash for FY 2012		$ 361,000
Budget amendment February 7, 2012		$ (2,000)
May 15, 2012 – Additional Revenues Anticipated	$ 23,000	
	$ 93,000	
	$ 6,000	
- Additional Expenditures Anticipated	$(80,000)	
Net effect of amendment		$ 42,000
Adjusted Beginning Cash to Date		$ 401,000

Clearly, the anticipated funding source of $ 961,000 is now at approximately $ 401,000, a decrease of $560,000, or nearly 60 %. This is obviously to be brought to the attention of the Council, so the Council may determine if budget adjustments are in order. Additionally, of course, if actual revenues and expenditures do not change from the budgeted amounts, the ending cash for FY 2012, to carryover to FY 2013, will need to be reduced by the like amount of $ 560,000.

Interesting enough the General Fund cash balance at this writing is around $ 411,000, which indicates that the City's actual expenditures for FY 2012 have been roughly equal to the actual revenues, which is close to the intentions of the Council, based on the approved budget.

E. I reviewed the budget publication requirements.

For FY 2012, the budget must have been published prior to the end of September 30, 2011. It was published on October 1, 2011. Since this was one day outside the required time frame, I decided to contact OSA to see if there was any leeway under the Statute. OSA indicated there was not. OSA also added that this would be required to be included as a finding in the FY 2011 Audit Report, in the Report on Compliance with State Laws, Rules & Regulations. Additionally, it is pertinent to note that I had pointed this out to the City Clerk in October, 2011, when I noticed the publication was after the statutory deadline. She acknowledged that she was aware the advertisement was not within the statutory deadline.

Because the above procedures do not constitute an audit in accordance with generally accepted auditing standards, I do not express an opinion on any of the specific accounts or classes of transactions referred to above. In connection with the procedures referred to above, I have indicated the matters that came to my attention that caused me to believe the items specified in Paragraphs A, B, C, and D should be rectified. Had I performed additional procedures or had I conducted an audit of the financial statements in accordance with generally accepted auditing standards, matters might have come to my attention that I may report to you when I complete my Independent Audit Report for the Fiscal Year Ending September 30, 2012. This report should not be associated with the financial statements of the City of Gautier, Mississippi, for the year ending September 30, 2012.

Lloyd B. Marshall, Jr.
Certified Public Accountant
Gautier, MS

August 5, 2012