

M-E-M-O-R-A-N-D-U-M

FROM: Mayor Sue McGinnis *S.M.G.*

TO: All Council Members

DATE: March 3, 2003

SUBJECT Letter From Town's CPA, Mr. Russell Scott

I am forwarding this to your attention in response to your inquires relating to issues that have come to your attention that needs to be addressed.

One issue of inquiry relates to the Town's fiscal year. You stated that on a number of communications that the fiscal year was indicated to be from June 1, 2001 through May 31, 2002. If you will note, dates on all the audit reports reflect the accurate dating: July 1, 2001, through June 30, 2002. This is the required fiscal year reporting date for all municipalities in the State of Maryland.

Another issue related to a late filing of audit reports. As you recall, the Town Treasurer at June 30, 2002, was Michell Dyer. Ms. Dyer did not give an advanced notice that she was leaving, but left a note the day she did leave. Ms Dyer could not be reached for assistance by phone. As a result, an employee from my office went to the Town office and printed out all of the years financial transactions from the Town's computer. Of course, more work and time was involved to be assured there were no existing internal control problems. No resultant problems came to light. However, in as much as it coordinated with trips I made to John Hopkins Hospital in Baltimore, it appeared more rational to request an extension of time, rather than rush the audit procedures. I spoke to the Department of Legislative Service in Annapolis, and was assured an extension would present no problem. The request was forwarded in writing and granted with written confirmation, and of course, the audit report and United Financial forms were filed prior to the expiration date, avoiding any late filing.

Relating to the General Administration Expenditures, the salary in the budget of \$61,116, would require a provision of \$4,675, for Social Security

and Medicare of 7.65%, however the budget only provides for \$938, or an under budget of \$3,737.

The Special Youth Grant and Summer Camp Contribution was not provided for in the budget. The amount was \$5,347. However, the Statement of Revenues included a receipt "Special Approp. Youth Grant", in the amount of \$5,000.00, which offsets the expenditure by this amount.

The Retirement Plan Contribution was not sufficiently provided for at the rate of 6% of qualified employees, resulting in an over expenditure of \$1,219.

The Capital Improvement for the required phone system and carpeting was not included in the revised budget figures although the expenditure was approved by the Council

Relating to Police Department Expenditures, again the budget did not provide for the 7.65% of Social Security and Medicare which were in the actual amount of \$10,167.

A change in the reporting requirements in the future will coordinate the receipts from the Red Light Program and the expenditures in the same category. As you will note, the receipts from the Red Light Program are recorded in the General Funds, in the amount of \$63,701, and the expenditures in the Police Fund for \$99,206. The net expenditures in excess of revenues are \$35,901.

The necessary purchase of a police vehicle, although approved by Council was not reflected in revised budget This again would fall within the unforeseen circumstances referred to in the Town Charter. This amount of capitalized items of \$54,186, when added to the proceedings two referred amounts predominantly accounts for the \$160,000 expenditures in excess of budgeted amounts.

Relating to the Special Revenue Fund, the required paving in excess of the budget was, of course, approved by the Council, however, not reflected in a revised budget.

The non-reoccurring expenditures that are previously discussed in conjunction with a constant comparison of actual with budgeted expenditures should create a more favorable financial structure in the

current fiscal period. At this time, the liquid current assets exceed the liabilities by an excess of \$200,000.

In the last three years that I have audited the Town's records, June 2000, June 30, 2003. It has been a continuous transition period with reference to the Town Treasurer position. I have been informed that this condition will be resolved in the near future with the appointment of Wilhelmina Gray, being trained to be appointed to the Town's Clerk/Treasurer position. With the assistance of my office, financial statements will be prepared monthly and monthly compared with the approved budget.

In the interim, the internal control feature is being maintained in that all expenditures are approved by the Council, and all checks require two signatures, that of the Mayor and the Council President.

I will continue to support Mayor Sue McGinnis, Town Council and the citizens of the Town of Forest Heights.