

RUSSELL B. SCOTT*Certified Public Accountant*

9560 Pennsylvania Ave., Unit 105
 Upper Marlboro, Maryland 20772
 (301) 599-6664

February 24, 2003

The Honorable Sue McGinnis
 Mayor, Town of Forest Heights, MD

Dear Mayor McGinnis:

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 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 the audit reports. As you recall, the Town Treasurer at June 30, 2002, was Michelle 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 Johns 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 Services 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 Unified Financial forms were filed prior to the expiration date, avoiding any late filing.

Directly relating to expenditures in excess of budgeted figures on the audit report, it appears that in many instances the lack of experience in preparation of the initial budget created the variances.

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 at a rate of 7.65%, however the budget only provided 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 includes 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 the 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 Fund 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 preceding 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 30, 2000, June 30, 2001, and 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 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. The signature of the Clerk/Treasurer will be substituted for the signature of the Council President.

If I can be of any additional assistance, please contact me and I will give the matter my immediate attention.

Very truly yours,



Russell B. Scott, CPA

Annotated, Retyped Letter from Russell Scott, CPA to Mayor Sue McGinnis

February 24, 2003

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Mayor, Town of Forest Heights

Dear Mayor McGinnis:

- (1) I am forwarding this to your attention in response to your inquiries relating to issues that have come to your attention that needs to be addressed.
- (2) One issue of inquiry relates to the Town's fiscal year. You stated that on a number of communications the fiscal year was indicated to be from June 1, 2001, through May 31, 2002. If you will note, dates on all 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.
- (3) Another issue related to late filing of the audit reports. As you recall, the Town Treasurer at June 30, 2002, was Michelle 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 by telephone. 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 Services 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 Unified Financial forms were filed prior to the expiration date, avoiding any late filing.
- (4) *Directly relating to expenditures in excess of budgeted figures on the audit report, it appears that in many instances the lack of experience in preparation of the initial budget created the variances.*
- (5) 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 at a rate of 7.65%, however, the budget only provided for \$938, or an under budget of \$3,737.
- (6) 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 includes a receipt "Special Approp. Youth Grant" in the amount of \$5,000.00 which offsets the expenditure by this amount.
- (7) 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.

- (8) 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.
- (9) Relating to the Police Department, Expenditures again the budget did not provide for 7.65% of Social Security and Medicare which were in the amount of \$10,167.
- (10) A change in the reporting requirements in the future will coordinate the receipts from the Red Light Program are recorded in the general Fund in the amount of \$63,701 and the expenditures in the same category. As you will note, the receipts from the Red Light Program are recorded in the General Fund 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.
- (11) The necessary purchase of a police vehicle, although approved by the 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 proceeding referred amounts predominantly accounts for \$160,000 expenditures in excess of budgeted amounts.
- (12) 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.
- (13) The non-recurring expenditures that are previously discussed in conjunction with constant comparison of actual with budgeted expenditures should create a more favorable financial structure in the current fiscal period. At this time current assets exceed the liabilities by an excess of \$200,000.
- (14) In the last three years that I have audited the Town's records, June 2000, June 30, 2001, and June 30, 2003. It has been a continuous transition period with reference to the Town Treasurer's 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 Clerk/Treasurer position. With assistance of my office, financial statements will be prepared monthly and monthly compared with the approved budget.
- (15) 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 Council President. The signature of the Clerk/Treasurer will be substituted for the signature of the Council President.
- (16) *If I can be of any additional assistance, please contact me and I will give the matter my immediate attention.*

Very truly yours,
Russell B. Scott, CPA

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.

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