

Town of Duncan, Arizona
High-Level Financial Review
August 11, 2021



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I.Executive Summary

The Town of Duncan (Town) contracted with Pat Walker Consulting to complete a high level review of the financial status/processes for the Town of Duncan.

The following areas are included in PWC's review:

- Bank statement and reconciliation review
- Review of Payroll reports
- Review of FY20 Financial Audit
- Review of FY21 Financial Statement
- Review of daily deposit activity recorded in financial system
- Review of Unpaid Invoice report compared to GL
- Review of outstanding receivables
- Review of prior budget auditor general forms

These areas will also be reviewed for effectiveness of internal controls, whether existing policies and procedures are being followed in practice, and recommendations for improvement.

After completion of review of the other areas outlined in this Executive Summary, a summary of the weaknesses along with the recommendations for improvements will be presented in the Executive Summary with details in the various sections of the report.

II. Overview

The Town of Duncan (City) Contracted with Pat Walker Consulting, to complete a In this review, any operational or organizational weaknesses will be identified with recommendations for improvements.

The following areas are included in our review:

- Bank statement and reconciliation review
- Review of Payroll reports
- Review of FY20 Financial Audit
- Review of FY21 Financial Statement
- Review of daily deposit activity recorded in financial system
- Review of Unpaid Invoice report compared to GL
- Review of outstanding receivables
- Review of prior budget auditor general forms

Each area reviewed has been presented in a separate section within the following report and includes a discussion of the current policies and procedures, a discussion of the review and analysis performed a list of noted weaknesses, and the recommendations for improvement. We have also included a separate section addressing general weaknesses not specific to a particular area.

III. Bank Statement Reconciliation and Review

The Town of Duncan has 3 bank accounts at National Bank of Arizona and one account with the Local Government Investment Pool. PWC started work on this task by reviewing the Caselle financial system bank reconciliations. None of the bank accounts have been reconciled since January. There is an account for the “Stockman’s Water Fund” with a bank balance of \$3,458.30 in Caselle for the bank statement but none on the general ledger side. I received no statements from the Town, talked to the auditors and they don’t show this account so this needs further research.

The main checking account at National Bank in Caselle show \$231,172.01 as of 1-31-21 reconciled. Caselle now shows through June 2021 a negative balance on the bank statement side of (\$76,660.05) and on the General Ledger side of (\$28,851.53) but this is unreconciled balances. The good news is that the bank shows a positive \$348,745.88 at the end of July 2021 but we do not know how many checks are outstanding that would bring down that balance. This is why bank statements need to be reconciled monthly otherwise you won’t know if you have too little funds in the bank or additional funds that could be invested in LGIP.

Speaking of the LGIP, I never did receive the statements for this account. Per the Auditor, the balance as of 6/30/20 was \$2,593.59. This needs to be followed up on.

The Town also has a “Pool Account” that showed a balance in Caselle as of 1-31-21 of \$22,851.53 reconciled and a Caselle balance of \$1,903.54 as of 6-30-21 unreconciled. However, the National Bank statement shows \$33,437.78 but again we do not know how many outstanding checks are there to bring down that balance.

The Town also has a CD with National Bank of Arizona that just came up for renewal on 8/12/21 in the amount of \$80,956.39

Summary

Overall, it is always disconcerting to see unreconciled bank statements in a City or Town as that is the best way to protect the Town from fraud and know what the cash flow is for investment and spending purposes.

Observations/Weaknesses Identified: Unreconciled bank statements as well as an account not accounted for. In this review there was a payroll check made out to Cynthia Nichols in August 2020 for \$2,737.25 and her net is usually around \$1450 so not sure why it appears to be a double check. There was also a payroll check made out to John Basteen on 12/10/20 but then another payroll check was made out to John Basteen on 12/17/20 that only had the signature of the Mayor (not two signatures per Town Code) and it was only a week apart so not sure why that was paid early as all other employees received their check on 12-23-20.

There was also a two payroll checks made out to John Basteen on 2-4-21 that were cashed and then he cashed another one on 2-18-21 so not sure what happened there. It appears that on the payroll that 4 payroll checks in total were written to John Basteen on 2-4-21 but two appear voided but then two cashed.

There was a large check made out Midco Diving & Marine Services for \$6,589.00 on April 7, 2021 and is just a service that I was not familiar with. It may be a legitimate expense but this needs to be reviewed.

There was a check made out to Cynthia Winters on 8-20-20 in the amount of \$2,737.25 but again not sure what it was for without looking at the backup.

The Town does not use the cash receipting system in Caselle so I could not trace deposits to the system. For some reason it appears there were 4 manual deposits prepared in November of 2020 and all were posted at the same time on 12-2-21 totaling \$5,248.44. There were a group of manual deposits made in June 2021 and all deposited at one time on 6-19-20 totaling \$9,433.29. I am not sure how the daily deposits are prepared, who prepares them and then who signs off on the daily reconciliation of cash but this needs to be done. The Town should not let that much cash be on sight without depositing it into the bank.

On July 8, 2021 a payroll check was made out to John Basteen and Jason McGrath, signed by John Basteen and no other signature. The same happened on checks made out on 7-22-21 to Lauren Basteen, Jarrett Garner, Logan Keith Basteen and Kayse Lynne Strain. The Town Code requires two signatures on every check and also does not allow someone to sign their own check let alone being the only one signing their own check.

Lastly there are checks that appear to be on an account set up at Home Depot where you spend anywhere from \$1,200 a month up to over \$2,000 a month, but without looking at the invoices I cannot tell what they were for. This as well as Chaparell, Stage Stop Mini-Mart and Cardholder Services for the credit card. Without a review it is hard to determine if all of these are for town purchases as I know there was a finding in the FY20 Audit on credit card charges that I will be discussing later in this report.

Recommendations: The Main Checking Account as well as the Pool Account and LGIP account needs to be reconciled as soon as possible to determine the cash position of the Town. The reason the July statement is so high is because the Town received the American Relief Funds for FY22. Hopefully there are enough funds to cover any outstanding checks.

Compliance with the Town Code on check signing must be implemented immediately for internal control and segregation of duties. I also recommend a reconciliation be

performed on the payroll system compared to the payroll checks written and cashed as there appears to be some issues that need to be resolved.

Just as the recommendation came from the auditors on the credit card receipts be attached to each invoice, the same should happen with every vendor such as the ones mentioned because it leads to possibly personal expenses with Town funds if there no checks or balances or once again, internal controls.

Lastly, I think due to the large amount of missing receipts on the credit card, the Risk Pool (AMRRP) should be contacted for a review since you may be able to collect that amount through your insurance.

IV. Financial Statement Review

PWC reviewed the audited financial statements for FY2020. This is where the finding from the auditor for the credit card charges so I did some additional follow up with the auditors so that Council is clear on the magnitude of this issue.

There was a total of \$45,058.66 in credit card charges in FY20 that did not have receipts. Of this total, there were 208 charges. After the Auditor ask for receipts from the Town Manager, 5 were produced and 12 were listed as “reasonable charges” by the Town Manager and Town Clerk. That left a balance of \$19,497 that had no supportable receipt or reasonable explanation as to what the charges were for. It is my understanding that the receipts are now being requested with each charge card payment the Town makes but I am not sure if the Town went back and did the same from July 2020 through the time they started this process.

In FY20, the General Fund had an unassigned fund balance of \$64,099 which is very low and that is after transferring \$142,753 to the Water Fund because the operating costs are not covered by user fees.

In FY21, this information was already briefed to the Council with the FY22 budget adoption. To recap, as of 6-30-21 unaudited balances, the General Fund is at 84% of the budget for revenues for state shared revenues and refuse fees are down but there may still be some Journal Entries (JE) that have not been completed since the Town is so behind no bank reconciliations. There is also a debit to a miscellaneous revenue account that is then credited to cash for \$8,576.55 on 12-31-20. That is bringing the revenue amount down too and is concerning that cash is being adjusted that way but needs to be further reviewed as to why the JE was made. The good news though is that expenditures are only at 77% of budget but again, that is not knowing what has or has not been recorded in your general ledger.

In the “Town House” department, there is a credit balance in the utility expenditure account of \$2,828.08 so not sure what is causing that other than what the auditors noted as an outstanding amount of \$11,316 for gas and electric that the Town Manager owes the Town however it should be put into a revenue account called “Recovery of Prior Year Expense” and not credited to an expense account. I also looked up in the Town’s utility system and there is no water, sewer or refuse being billed to the address of Town House. This may be an agreement the Town has with the Town Manager but needs to be verified.

The Water fund is projected to spend \$67,931 more than it brings in revenue for F21. Rates will need to be looked at as this will need to be subsidized by the General or Sewer fund.

There appears to be \$47,764.40 of expenditures spent for a CDBG grant and I did not see a receivable booked so I hope the reimbursement has been requested.

The Town has overspent 4th of July expenditures over revenues by \$7,514 and Small Town Christmas By \$2,538.

Summary

Overall, there are concerns moving forward for the financial status of the Town as outlined above and need to be addressed sooner than later.

Observations/Weaknesses Identified: There needs to be a complete review of all the financials for FY21 as it was noted in the auditor recommendations for a “clean” trial balance that they can audit. The utility funds also need to be carefully reviewed as it will continue to go further into deficit I am afraid.

Recommendations: The Town needs to be to the answer of why \$8,576.55 was credited to cash (in other words taken out) as well as all other accounts reviewed and corrected if necessary. A review on whether the Town needs to pay for the water, sewer and refuse charges or the Town Manager needs to be decided but either way, the charges should be there in the utility billing system. A review to determine if an increase in water rates will cover the expenditures over the next five years and also to conduct a 5-year financial forecast for all funds but especially for the general and utility funds. If there has been no request to CDBG then one needs to be requested and a receivable booked.

Council needs to also decide as a policy decision whether they want to continue subsidizing the special events in the Town.

V. Unpaid Invoice Report

Caselle produces a report called the “Unpaid Invoice Report” and this should tie to the General Ledger account payable accounts. Currently, it does not and this needs to be reconciled before the auditors come out. I would also suggest a more thorough look at the checks written and sampled back to the check register under the “Paid Invoice” report from July 1, 2020, to period 13/21 in Caselle. Not only to make sure that the amounts tie but to also make sure there are all legitimate expenditures to the vendors I mentioned in the bank reconciliation section. PWC printed out both the Check Register and Unpaid Invoice report but ran out of time to do any thorough review that needs to be done.

Recommendation: The tasks described above need to be completed prior to the auditors coming out.

VI. Review of Utility Account Receivables

PWC reviewed the Aging Report in your Caselle Utility Management system and here is the amount of utility receivables outstanding for the Town of Duncan.

- There is a total of \$137,321.87 of which \$98,589.61 is over 90 days plus due.
- There is \$20,740.70 for the current period, \$13,390.56 for 30 days, and \$4,592 for 60 days.

Recommendation: Due to the fact the utility accounts need these revenues to continue to serve the citizens of Duncan, a collection effort should be made. Also, a reconciliation of utility billing compared to revenues must be conducted to determine if the outstanding amount is correct. This definitely needs further follow up as well as a look at adjustments made in the system.

VII. Review of Auditor General Forms

This review was completed during the FY21 budget adoption as there were numerous items that were corrected for the FY22 Auditor General Forms.

Assistance for Updating Policies and Procedures to Prevent Fraud

There is a an organization called the Committee of Sponsoring Organizations of the Treadway Commission (COSO) which is a joint initiative of the five private sector organizations that are the American Institute of CPA's, the American Accounting Association, the Institute of Internal Auditors, Financial Executives International and the Association of Accountants and Business Financial Professionals that is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The COSO's mission is to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.

The COSO has an Internal Control Certificate Program that offers financial professionals, including internal auditors and CPAs, the opportunity to earn a professional certificate in the 2013 *COSO Internal Control-Integrated Framework*.

The program is a combination of self-paced learning and a hands-on workshop, followed by an online examination. Upon successful completion of all three components, candidates will receive an official COSO certificate that demonstrates their ability to design and implement an effective system of internal control utilizing the *COSO Internal Control-Integrated Framework*. This may be very useful to the Town of Duncan and their website is COSO.org.

Also, PWC will be glad to provide policies and procedures adopted by various entities in the State of Arizona.