



Daniel Jones & Associates

MEMBERS OF
MISSOURI SOCIETY OF CPA'S
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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures described below, which were agreed to by the Mayor and City Administration, solely to assist you in evaluating the fiscal year 2009 general fund budget process and document events surrounding the development of the general fund budget and its subsequent six-month review. The City's management is responsible for the fiscal year 2009 general fund budget process and development of the general fund budget and its subsequent six-month review. This agreed-upon procedures engagement was conducted in accordance with 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 this report. Consequently, we 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.

Procedures and Findings

Procedures

We reviewed the 2008-2009 budget process, conducted interviews surrounding the development of the general fund budget and reviewed its subsequent six-month review proposed adjustments.

Findings

The City of Arnold issued \$7,110,000 in bond issues in November 2007. In the original budget for 2007-2008, revenue for this bond issue was originally budgeted for \$5,050,000. The final budget was reduced to \$3,225,836 based on the assumption that approximately \$1.5 million will be spent in fiscal year 2008-2009 and was therefore budgeted in 2008-2009. The first proposed amendment to this budget error was at the six month review. Therefore, in the original 2008-2009 budget, revenue was over budgeted by \$1.5 million dollars. This was due to an error in budgeting revenue.

Under GASB, revenue is recorded when it becomes available and measurable, not when spent. The City Council was informed of the 2008-2009 budget error in April. Based on the information we received, it appears the bond expenditures were over spent by \$409.

Per discussion with city employees and review of 2008-2009 financial information, the deficit at the six month review point of time is due to an error in budgeting revenue of the bond issue and the city thinking this money was available to spend in the 2009 fiscal year, when in fact, it was not without spending down fund balance.

During our review, it was noted that the City does not have a budget procedures manual.

Recommendations

During the above process, we identified several recommendations that would improve the financial reporting of the City of Arnold.

1. The budget should be prepared by line item.

Management's response: The City complies with RSMo 67.010 requiring the budget contain line item detail.

2. A monthly budget to actual report should be reviewed and contain attachments explaining all variances.

Management's response: Budget to actual reports are reviewed at weekly management meetings. Explanations for all variances may be optimal, but given the time and staff required this process is not sustainable on a monthly basis. The City will review its needs and establish a reasonable and appropriate reporting process.

3. No capital expenditures should be spent without the revenue being received.

Management's response: Most federal and state grants and some taxes such as the County Road Tax, operate on a reimbursable basis precluding the City from complying with this recommendation. Other tax revenues are received in increments throughout the year. Essential, emergency, public safety or public health related equipment purchases can't be held until revenues are received. The city utilizes fund balances for these purchases.

4. Separate capital accounts should be prepared for each project.

Management's response: Capital projects are tracked by Project accounts that provide tracking and reporting for activities occurring in multiple fiscal years. This eliminates the set-up and use of accounts for one-time capital projects helping to streamline the chart of accounts.

5. The City Council should attend budget workshops.

Management's response: The City will discuss and determine a reasonable and appropriate budget review process that meets its needs.

6. The City should prepare risk management and internal control documentation.

Management's response: We concur. The City will consider an appropriate risk assessment and internal control documentation tool.

7. The City should prepare a budget procedures manual.

Management's response: We concur. The City will determine reasonable and appropriate budget procedures for inclusion in its accounting manual.

8. Budget adjustments should be prepared monthly, not every six months.

Management's response: The City will review its current budget amendment process and determine if any revisions are needed.

9. Internal audit – consider outside consultant to review monthly financial statements. Due to the complexity of the City, additional oversight is recommended to assist management.

Management's response: The City will review its needs and determine a reasonable and appropriate review process.

10. Key financial personnel should obtain at least 40 hours of continuing professional education (CPE) each year in the areas of budgeting, accounting and governmental reporting requirements.

Management's response: The Finance Director conforms to CPA licensing requirements established by the State of Missouri Department of Professional Registration.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the fiscal year 2009 general fund budget process and documentation of events surrounding the development of the general fund budget and its subsequent six-month review. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mayor and City Administration and is not intended to be and should not be used by anyone other than those specified parties.

Daniel Jones & Associates

Daniel Jones and Associates, P.C.
August 18, 2009

City of Arnold
2007 Bond Issue

During the 2007-2008 fiscal year, the City of Arnold issued revenue bonds in the amount of \$7,110,000. The City originally budgeted the amount as follows:

September 1, 2007 -
August 31, 2008

<u>Type</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Revenue	\$ 5,050,000.00	\$ 3,225,836.00	\$ 7,110,000.00

Original budget prepared by prior accountant

Amended budget prepared by Debbie Lewis

Revenue was recorded correctly on the general ledger

* Under GASB, revenue is recorded when it becomes available and measurable, not when spent.

During the 2008-2009 fiscal year Debbie budgeted revenue in bond financing proceeds line, the amount of anticipated expenditures. The revenue that Debbie had budgeted had been recognized correctly in the prior 2007-2008 fiscal year and no revenue would be received during the 2008-2009 fiscal year to account for this amount budgeted.

September 1, 2008 -
August 31, 2009

<u>Type</u>	<u>Original Budget</u>	<u>Proposed Budget Amended</u>	<u>Actual</u>
Revenue	\$ 1,534,000.00	\$ -	\$ -

The amount of revenue Debbie Lewis budgeted. Debbie based this amount on the expenditures the City would incur for 2008-2009. Note the revenue was recognized in the 2007-2008 fiscal year.

Budget adjustment proposed on May 7, 2009

No revenue received