



April 6, 2020

Hon. Carolyn Lofton, Mayor
City of Marlin Texas
101 Fortune Street
Marlin, TX 76661

Re: *City of Marlin Forensic Audit*

Dear Ms. Lofton,

Stewart & Hurst, LLC was retained by the City of Marlin to review selected financial transactions that occurred during the previous Financial Administration and to identify current areas of concern for the City of Marlin and its administration.

The results of our analysis are as follows:

1. Duplicate invoices and disbursements: The 2017-2018 Annual Financial Review Audit performed by the Accounting firm of Donald L. Allman, CPA, PC identified material weaknesses in the internal controls over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner¹. One of the auditor's concerns were six duplicate invoices totaling \$3,539 that were paid twice.
 - a. We reviewed Accounts Payable and requested supporting documents for 26 additional invoices that appeared to have been entered into the Accounts Payable without the original invoice number. These invoices will be reviewed for duplicate payments.
 - b. We have also reviewed Accounts Payable and bank statements for voided checks at a threshold of \$5,000 to ensure that the checks did not clear the bank given their voided status. We noted that none of the voided checks included in the review cleared the bank.

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2. **Accounts Payable, staff reimbursement expenses:** Accounts Payable and Check Reconciliation Registers were reviewed to identify payments made for expenditures unrelated to the City of Marlin or solely for the benefit of personnel. We reviewed the supporting documents for reimbursements made to several key employees and determined that the expenditures were business related. Total reimbursements for these employees during the fiscal year 2017-2018 were less than \$1,700.

3. **Bank Statements:** Bank Statements were requested so that we could review for potential transactions outside of the scope of business related to the City of Marlin. After discussion with City personnel the decision was made to focus on the 2017–2018 fiscal year. During the review of bank statements, we were looking for payments made to vendors or employees for luxurious expenditures or expenditures unrelated to the City. We have not identified any such payments in the statements reviewed.
 - a. We have not received all requested bank statements and therefore have not been able to review all documents.
 - b. While reviewing the statements that were received, we have seen interbank transfers which helped to identify bank accounts that the current administration is unaware of. One of these accounts contained an internal transfer to another account for which statements have not been produced.
 - c. We were informed that it is not known how many bank accounts are still held by the city.
 - 1) On March 13, 2020, we received a document that contained a list of accounts opened with First State Bank as of February 7, 2018. It is unclear whether these bank accounts are still open or currently dormant. In April 2018 multiple General Ledger accounts associated with the bank accounts on this list were consolidated into a “Pooled Account”². As a result, the cash account balances in the General Ledger were reclassified into the pooled account and the original cash accounts were inactivated/deleted. The Finance Director has requested additional bank statements from Bancorp South (Formerly First State Bank), based on this recently discovered list from 2018. In response to the request

sent to Bancorp South we received multiple bank statements on March 20 and March 24, 2020. Unanswered questions are: have the accounts been closed or are they dormant? If they are still open, have there been transactions after the GL balances were consolidated into the pooled account? If so, what were those transactions related to?

4. Water Payments: We were unable to complete a reconciliation of water services provided to customers with invoices, receipts and deposits. We requested Cash Collections Reports and US Monthly Transactions Reports for the months Aug 2019 – Jan 2020. These documents were requested to determine whether there were discrepancies in customer accounts related to deposits received for new accounts as well as late or no payments made without the service being discontinued.
 - a. During our review of the monthly Cash Collections Reports, we noted there was a significant increase in collections for the months of November 2019 and January 2020. The increase can primarily be attributed to collections related to Levy Current and Levy Delinquent.
 - b. Following the review of the full customer list in the US Monthly Transactions Reports, customer statements were requested if: 1) The account did not show a deposit 2) The account statement showed several months without a bill payment, but the service was not disconnected. 3) Customers with notes stating that the accounts were excluded from cutoffs and 4) Customer accounts were written off.
 - 1) The supporting documents produced were print screens of transactions details and not full billing information. We followed up by requesting actual customer statements. This request remains open.
 - c. The Utility Billing Supervisor has informed us of the following: if a customer relocates to a new residence that is still serviced by the city, they will receive a new account number, but they are able to apply the original deposit to the new account. The Utility Billing Supervisor also stated that the “City signed a contract with the collection agency in 2018 the City Manager and Finance Director, at that time, told us to send all closed accounts that were 3 months past their final bill to the collection agency and that we were to continue that way going forward. At this time Shruti Childs runs the report,

checks the accounts for errors and or payment arrangements, then sends the list to the collection agency”³. Upon receipt, customer statements will be reviewed to determine if these procedures have been followed.

5. Grants and Bonds: There appears to be no consistent tracking of receipts, deposits and disbursements related to grants and bonds. We have requested a list of grants and bonds to ensure that they are being tracked properly and have not received one.
 - a. There does not appear to be a list of grants. During the review of bank statements, we were able to identify several payments made to vendors associated with different grants.
 - b. There also does not appear to be a current list tracking outstanding bonds and loans with the respective monthly payments. After reviewing bank statements and Accounts Payables we were able to identify multiple loan repayments and were able to match them to the respective loan.
6. Pledges – During the review of bank accounts, we received statements for US Bank Acct XXX-2512⁴.
 - a. We were informed that this bank account was for “pledges” and that the City of Marlin does not own the right to the funds in this account nor does the City of Marlin manage the funds.
 - b. During our review of the January 2018 statement for Account xxx-2512, we noted that assets with a market value of \$2,021,724.95 were transferred to Account xxx-2423, which is listed as an internal transfer. This transfer resulted in a 0 balance in Account xxx-2512. We have not received any statements for Account xxx-2423, so it is unknown at this time whether this account is a City of Marlin account.
 - c. We have requested clarifications as to whether City personnel had direct access to these funds. If City personnel have had access to or authorization related to this account, we will need the statements for Account xxx-2423 and a list of the employees who have access and signing authority.

Recommendations:

1. Internal controls should be firmly established in all financial areas. Segregation of duties related to collections, recording and authorization of financial transactions will decrease the amount of control any individual has over a process.
2. Going forward, an invoice should not be entered into the system with an invoice number other than that provided by the vendor. If the actual invoice is not available, it should be requested from the vendor. Also, checks should not be issued without supporting documentation.
3. A new set of policies and procedures should be put in place for financial and bank transactions in order to create a successful audit trail. It is our recommendation that the City identify all banks with which the City maintains accounts and submit a request to each bank to provide a list of accounts and balances for all the accounts held at each respective bank. If a bank account is closed the bank account list should be updated accordingly. (An example of this has been produced from Citizens Bank⁵).
4. If an individual is no longer employed by the City the bank should be informed immediately. Any authorization and access related to bank accounts should be terminated.
5. Banks statements should be reconciled with internal financial balances monthly, within 15 days of receipt. Timely completion of reconciliations is an internal control that increases the possibility of identifying inconsistencies and will give the City an opportunity to take corrective actions as needed. There should also be a record of the employee responsible for completing reconciliations and the employee responsible for reviewing those reconciliations. If a bank account is dormant or simply earning interest, a reconciliation still needs to be completed.
6. Deposit slips should clearly state what each deposit is related to in order to create a proper audit trail.
7. Specific controls should be put in place for grants and bonds. Each grant and bond should have its own bank account. Each grant should be accounted for separately to ensure that

funds are being used properly and for the intended projects. Tracking grants will also allow the City to see the amounts that have been funded and dispersed for each grant. These funds should not be commingled or pooled with other funds. Similar to grants, bonds and loans should be tracked in order to ensure that they are being repaid timely and the City is able to account for its liability properly and in full. The City should keep a record of all financial documents pursuant to each grant, bond and loan. The documents should include, but not be limited to 1) Contracts, 2) Legal Agreements 3) Financing of Contracts 4) Draw Schedules 5) Invoices 6) Performance Statements and 7) Resolutions (as applicable). Grant and Bond activity should be compared to budgeted amounts so that variances can be analyzed and accounted for.

Summary:

We were unable to address and resolve all the issues and concerns brought to our attention because of lack of documentation. Multiple document requests remain outstanding. We have provided a list of outstanding documents see Exhibit 6.

We reserve the right to change our findings based on the receipt and review of additional supporting documents.

Very truly yours,



William B. Stewart Jr., CPA



Elizabeth Hardesty Hurst, MBA, ASA
EHH