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City of Durant, Mississippi

**Audited Financial Statement
September 30, 2012**

Fortenberry & Ballard, P.C.
Certified Public Accountants

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APR 02 2014

City of Durant, Mississippi
Audited Financial Statement
September 30, 2012
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INDEPENDENT AUDITORS' REPORT

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FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Durant
Durant, Mississippi

We have audited the Statement of Cash Receipts and Disbursements, of the City of Durant, Mississippi, as of and for the year ended September 30, 2012. This financial statement is the responsibility of the City of Durant, Mississippi's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement referred to above is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the financial statement was prepared in cash basis accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also as discussed in Note C to the financial statement bank reconciliations did not agree with the City's cash account balances. The effect of the differences in reported and reconciled cash in two bank accounts was \$172,525.68. Additionally a representation from an attorney was not provided. Therefore, contingencies and liabilities could exist which were not disclosed.

In our opinion, except for the effects the cash adjustments to the cash account balance as discussed in the previous paragraph, and except for the effects of any attorney's response, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the City of Durant for the year ended September 30, 2012, on the basis of accounting described in Note A.

Our audit was conducted for the purpose of forming an opinion on the financial statement of the City of Durant, Mississippi taken as a whole. Schedules 1-5, as required by the Mississippi Office of the State Auditor, are presented for the purposes of additional analysis and are not a required part of the audited financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the Statement of Cash Receipts and Disbursements and, accordingly, we do not express an opinion or any assurance on it.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014

FINANCIAL STATEMENT

CITY OF DURANT, MISSISSIPPI

**COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (ALL FUNDS)
For the Fiscal Year Ended September 30, 2012**

	<u>General Fund</u>
RECEIPTS	
General Property Taxes	\$ 956,069
Licenses and Permits	45,521
Intergovernmental Revenues:	
Federal CDBG	864,438
State Emergency Aid	123,908
General Municipal Aid	18,568
State Shared Revenues:	
Sales Tax	292,466
Restricted Rebates	8,648
State Fire Rebate and Fire Protection	16,430
Charges For Services:	
Electric & Water Utility	3,259,939
Fines & Forfeitures	52,694
Rental Income	57,488
Unrestricted Revenue	15,060
Activity Fund Revenue	560
Historical Preservation Revenue	16,425
Miscellaneous Income	2,434
Total Receipts	<u>5,730,648</u>
DISBURSEMENTS	
General Government	408,236
Public Safety - Police	525,266
Public Safety - Fire	234,646
Public Works - Streets	245,922
Library	75,756
Culture and Recreation - Parks	59,521
Electric & Water Utility	2,727,912
Legal	20,528
Debt Service Payments	190,426
Total Operating Disbursements	<u>4,488,214</u>
OTHER SOURCES/DISBURSEMENTS	
School District	576,016
Capital Outlay	890,640
Transfers (In) Out	34,819
Total Other Disbursements	<u>1,501,475</u>
Net Disbursements	<u>5,989,689</u>
Excess (Deficiency) of receipts over disbursements	(259,042)
CASH BASIS FUND BALANCE - OCTOBER 1	<u>121,336</u>
changes in receivables & payables not affecting cash	264,324
CASH BASIS FUND BALANCE - SEPTEMBER 30	<u>\$ 126,618</u>

The Notes to the Financial Statement are an integral part of this Combined Statement of Cash Receipts and Disbursements.

City of Durant, Mississippi

Notes to the Financial Statement
September 30, 2012

City of Durant, Mississippi

Notes to the Financial Statement
For the Year Ended September 30, 2012

Note A: Summary of Significant Accounting Policies

The City of Durant operates under the Mayor-Board of Alderman form of government and provides services as authorized by law. City's population on the 2011 census was 2,673. The accounting policies of the City of Durant conform to the laws of Mississippi for a municipality with a population of less than 3,000. The following is a summary of the more significant policies.

Reporting Entity

The financial statement of the city consists of all the funds of the city. There are no component units nor related organizations included in the statement as they do not fit the criteria for such inclusion.

Fund Accounting

The accounts of the city are organized on the basis of the funds, each of which is considered a separate accounting entity.

Basis of Accounting

The financial statement is prepared on a cash receipts and disbursements basis, as allowed by the Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Cash receipts and disbursements is a basis of accounting other than generally accepted accounting principles.

Note B: Report Classifications

Receipts and disbursements were classified according to requirements for small towns in the State of Mississippi as allowed and described by the Office of the State Auditor.

Note C: Cash

The City deposits excess funds in the financial institutions selected by the Mayor and Board of Alderman in accordance with state statutes. Cash consists of interest-bearing demand accounts and certificates of deposit. Cash and other deposits are valued at cost. For purposes, of the combined statement of cash flows, the municipality considers to be cash equivalents all highly liquid investments and certificates of deposit if they have a maturity of one year or less when acquired.

City of Durant, Mississippi

Notes to the Financial Statement
For the Year Ended September 30, 2012

Note D: Defined Benefit Pension Plan

Plan Description

The City of Durant, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 9.00% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The contribution rate is 12.93% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State Mississippi Legislature. The City's contributions to PERS for the last three years were not available.

Note E: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The city finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The city pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

City of Durant, Mississippi

Notes to the Financial Statement
For the Year Ended September 30, 2012

Note F - Subsequent Events

Events that occur after the Statement of Cash Receipts and Disbursements date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Cash Receipts and Disbursements date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Cash Receipts and Disbursements date require disclosure in the accompanying notes. Management of the City of Durant, Mississippi evaluated the activity of the city through the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require disclosure in the notes to the financial statements.

SUPPLEMENTAL INFORMATION

City of Durant, Mississippi
Schedule of Investments - All Funds
9/30/2012

Schedule 1

<u>Ownership</u>	<u>Type of Investment</u>	<u>Interest Rate</u>	<u>Acquisition Date</u>	<u>Maturity Date</u>	<u>Other Information</u>	<u>Investment Cost/Value</u>
General Fund	Certificate of Deposit	0.15%	6/17/2009	10/17/2013	M & F Bank	\$ 15,623.41
Total Investments						<u>\$ 15,623.41</u>

City of Durant, Mississippi
Schedule of Capital Assets
For the Fiscal Year Ended September 30, 2012

Schedule 2

Governmental activities:	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Land	\$ 0			0
Construction in process	0			0
Buildings	0			0
Machinery and Equipment	0			0
Infrastructure	0			0
	0			0
Total Governmental activities capital assets	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Business-type activities:				
Capital Assets:				
Land	\$ 0			0
Construction in process	0			0
Buildings	0			0
Machinery and Equipment	0			0
Infrastructure	0			0
	0			0
Total Business-type activities capital assets	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>

* City does not maintain capital assets records and the amount

City of Durant, Mississippi
Schedule of Long-Term Debt
For the Fiscal Year Ended September 30, 2012

Schedule 3

Definition and Purpose	Balance Outstanding October 1, 2011	Transactions During Fiscal Year		Balance Outstanding September 30, 2012
		Issued	Redeemed	
Other Long-term Debt:				
2004 Ford F250	\$ 5,833		5,833	(0)
Bankcorp South	26,234		22,500	3,734
Capital Improvements Loan, Series 1996	574,632		190,426	384,206
Capital Improvements Loan, Series 1996	4,172		56	4,116 *
Capital Improvements Loan, Series 2008	261,886			261,886 *
Total	<u>\$ 846,523</u>	<u>0</u>	<u>218,815</u>	<u>653,942</u>

* City does not maintain debt records and the amount presented is based on estimates provided by bank confirmations of financial institutions and original loan documents.

City of Durant
 Schedule of Surety Bonds for Municipal Officials
 9/30/2012

Schedule 4

Name	Position	Surety	Bond Amount
Ursula Holley	City Clerk	Travelers	\$ 50,000
Sandra Parkerson	Deputy City Clerk	Travelers	50,000
Robert Johnson	Mayor	Travelers	100,000
Barbara Booth	Alderman	Travelers	100,000
Leotha Patterson, Jr.	Alderman	Travelers	100,000
Mary Johnson	Alderman	Travelers	100,000
Henry Robinson, Jr.	Alderman	Travelers	100,000
John Smith	Asst. Chief	Travelers	50,000
John Haynes	Chief	Travelers	50,000
Patrick James	Chief Investigator	Western Surety	50,000
Lee Ann Keith	Clerk	Travelers	50,000
Shannon Gallagher	Court Clerk	Western Surety	50,000
Larry Gladney	Dispatcher	Travelers	50,000
Mark Wellman	Fire Chief	Travelers	50,000
Robert Greer	Dispatcher	Travelers	50,000
Charles T. Pender, Jr.	Policeman	Travelers	50,000
Willie C. Collins	Policeman	Travelers	50,000
Zelie Shaw	Policeman	Travelers	50,000
J. W. Greer	Policeman	Travelers	50,000
James McDonald	Policeman	Travelers	50,000
Odesser Young	Dispatcher	Travelers	50,000
Sidney Randle	Senior Officer	Travelers	50,000

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City of Durant, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Schedule 5

Federal Agency/ Pass-Through Entity/ Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Entity Identification Number	Federal Share
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed-through Mississippi Development Authority			
Community Development Block Grant - State's Program	14.228	1102-10-172-LN-01	\$ 75,184
Community Development Block Grant - State's Program	14.228	1127-10-172-ED-01	461,802
Community Development Block Grant - State's Program	14.228	1128-11-172-PF-01	43,000
Home Investment Partnerships Program	14.239	1222-M10-SG-280-184	284,452
Total passed-through Mississippi Development Authority			<u>864,438</u>
Total for all Federal Awards			<u>\$ 864,438</u>

Notes to Schedule

1. This schedule was prepared using the current financial resources basis of accounting which generally recorded expenditures when the liability occurred and is different than the cash basis accounting policies used for the Cash Receipts and Disbursement Schedule.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
City of Durant
Durant, Mississippi

We have audited the Statement of Cash Receipts and Disbursements of the City of Durant, Mississippi as of and for the year ended September 30, 2012, and have issued our report thereon dated September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014. Our report differed from the standard report because the City of Durant prepared the statement on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Also the report differed due to comments on cash and the lack of provision of an attorney's letter. Except for the effects of the items referred to above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Durant is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Durant's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Durant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Durant's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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 on a timely basis. We considered the deficiencies described in Findings 2012-1 and 2012-2 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Durant, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we reported to management of the City of Durant, Mississippi, in the Independent Auditor's Report on Compliance with State Laws and Regulations dated September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014, included within this document.

The City of Durant's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit the City of Durant's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, the Board of Aldermen, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
Certified Public Accountants
September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited City of Durant's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Durant's major federal programs for the year ended September 30, 2012. The City of Durant's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Durant's management. Our responsibility is to express an opinion on the City of Durant's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Durant's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Durant's compliance with those requirements.

As described in Finding 2012-3 in the accompanying Schedule of Findings and Questioned Costs, City of Durant did not comply with requirements regarding reporting that are applicable to its Community Development Block Grant - State's Program. Compliance with such requirements is necessary, in our opinion, for City of Durant to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, City of Durant did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on its Community Development Block Grant - State's Program. Also, in our opinion, City of Durant complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program for the year ended September 30, 2012.

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Internal Control Over Compliance

Management of the City of Durant is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Durant's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2013-3 and 2013-4 to be material weaknesses.

City of Durant's responses to the findings identified in our audit are described in the accompanying Auditee's Correction Action Plan. We did not audit City of Durant's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 24, 2014

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor and Board of Aldermen
City of Durant
Durant, Mississippi

We have audited the Statement of Cash Receipts and Disbursements of the City of Durant, Mississippi as of and for the year ended September 30, 2012 and have issued our report dated September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The result of those procedures and our audit of the Statement of Cash Receipts and Disbursements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 1:

Section 21-35-25, Miss. Code Ann. (1972), provides for the revision of the final adopted budget during the fiscal year. This law allows governing authorities to revise the budget at any time. The only exception is that no revision may be made during the first three months of a new term of office unless a deficit is indicated; then one revision may be made no later than the last regular meeting in August. It is mandatory that the governing authorities revise the budget (at a regular board meeting) to bring it into proper balance at any time it appears revenues will not materialize and a deficit is indicated. This mandatory revision must be made prior to the regular July meeting. Budget revisions resulting in more or less than a 10 percent change in a department's originally adopted budget must be publicized in the same way the municipality published its original budget. The publication must explain the revision, including amounts, need and purpose.

During the course of our audit, the city was unable to provide us with a copy of their revised budgets. Not revising or maintaining proper documentation of revised budgets results in noncompliance with Section 21-35-25, Miss. Code Ann. (1972).

Recommendation:

We recommend the city comply with Section 21-35-25, Miss. Code Ann. (1972).

Response:

The city will comply with Section 21-35-25, Miss. Code Ann. (1972).

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Finding 2:

Section 21-35-17 Miss. Code Ann. (1972), mandates that "Any one or more of the governing authorities, or clerk, approving any claim or issuing any warrant in excess of any such budget appropriation, except as above provided, shall forfeit to the municipality twice the amount of such claim or warrant, which shall be recovered in an action against such member, or members, of the governing authorities, or clerk, or all of them, and the several sureties on their official bonds, and it shall be the duty of the governing authorities of such municipality, or the state auditor, as the head of the state department of audit, or the director thereof, appointed by him, or any taxpayer of such municipality, to bring an action therefor through the city attorney, or any attorney designated and empowered so to do by a court of competent jurisdiction.

Transfers were made from utility checking accounts to the general fund checking accounts without budget authority or board approval. Additionally the budget was not amended to approve disbursements which exceeded the original budget.

Recommendation:

The city should document transfers with the monthly payables which are being approved in the minutes. These disbursements should be individually identified in the minutes. The budget should be amended in the minutes before expenses which exceed the budget are incurred.

Response:

The city will comply with Section 21-35-17, Miss. Code Ann. (1972).

Finding 3:

The city is to maintain adequate subsidiary records substantiating the existence, completeness, and valuation of fixed assets.

During the course of our audit, we noted the city did not conduct an annual inventory observing fixed assets pursuant to guidelines set forth by the Mississippi Office of the State Auditor. Neither does the city maintain a listing of fixed assets which should include description, serial number, cost, and date of purchase.

Recommendation:

The city should conduct annual inventory of its capital assets. Work has begun on this duty to obtain all necessary information required by the Mississippi Municipality Fixed Assets Management Manual.

Response:

This procedure is currently being implemented. The city will establish an inventory policy that will require a complete annual inventory of all fixed assets. All assets will be properly tagged and numbered and relevant information will be gathered on all assets and included on the master fixed assets listing.

A public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to monitor whether corrective action has been taken. The City of Durant's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

This report is intended for the information of the City's management and Board of Aldermen and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014

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MANAGEMENT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

Honorable Mayor Tasha Davis
City of Durant
Durant, Mississippi

In planning and performing our audit of the financial statement of the City of Durant for the year ended September 30, 2012 (on which we have issued our report dated September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the City's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention. The definition of a deficiency is also set forth in the attached Appendix II.

We have also issued a separate report, dated September 27, 2013, except for Schedule 5 as to which is dated March 24, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters which is included in this document.

This report is intended solely for the information and use of the management of City of Durant, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We wish to thank the staff and management of the City of Durant for their cooperation and assistance during the course of this engagement.

Very truly yours,

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC

March 24, 2014

1929 Spillway Road, Suite B
Brandon, Mississippi 39047

Appendix I

Pursuant to our engagement letter we were engaged to audit the statement of cash receipts and disbursement. Therefore the balance sheet accounts, with the exception of cash, were not in the scope of our audit engagement. However we identified, and have included below, control deficiencies involving the City's internal control over financial reporting in the balance sheet as of September 30, 2012 which came to our attention.

1. Accruals

For the year ended September 30, 2012, in accordance with Mississippi Code Section 21-35-31, the city was required to have a full scope audit which was allowed in accordance with OCBOA (Cash Basis) accounting. A Cash Basis Financial Statement does not report revenues when earned if not received, nor expenses which have not been paid. Although allowed to use OCBOA accounting by Section 21-35-31 during this period, the City still maintained accruals in their financial records. These accruals are on a different basis of accounting than the Statement of Cash Receipts and Disbursements presented in this document. Although accruals were not audited the following variances were noted:

A. Payable Accounts

Comment: Several payable accounts have unreasonable balances or account balances which did agree with supporting documentation. These accounts included:

Accounts Payable \$756,436.76
Due from CDBG (\$18,563.98)
Due to RES - Garbage Fees (\$838,985.86)
State Withholding Payable (\$44,175.29)
Payroll Liabilities (\$74,566.78)
Federal Withholding Payable (\$155,486.19)
FICA Payable \$111,183.91
State Retirement Payable \$24,476.05

(Brackets indicate that instead of a balance payable that an overpayment has been made or that the City is due a refund if the account is correctly reported.)

Recommendation: We recommend that the City utilize a local certified public accountant to investigate and to adjust these accounts to actual after reporting their conclusions to the board.

B. Accounts Receivables

Comment: Accounts Receivable have an undocumented account balance of \$970,984.71 carried forward from a prior years.

Recommendation: We recommend that the City utilize a local certified public accountant to investigate and document or to adjust this account as necessary. We also recommend the City record the 2011 Note Receivable from First Class Linen, LLC for \$472,119 which has not been accrued on the City's books. Additionally any allowance for doubtful accounts should be

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booked and adjusted at least annually for receivable accounts and notes.

3. Bank Reconciliations

Comment: Progress has been made on bank reconciliations. However two cash accounts (General Fund and Electric Fund) reported by the City did not agree with bank reconciliations. The City reported \$172,525.68 less cash than was reflected in the bank reconciliations.

Recommendation: The City should ensure that bank reconciliations are accurately and timely prepared.

4. Internal Control

Comment: Management is responsible for establishing an internal control that ensures strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records. During the audit, we noted the following lack of internal controls:

Of the expenditures tested, there were 5 out of 45 instances in which no documentation was provided to document the released cash other than the canceled check. Also, there were 46 out of 46 instances of no attestation of receipt by any employee.

Inadequate internal controls can result in the misappropriation of assets.

Recommendation: We recommend that the city implement policies and procedures to ensure that adequate documentation is maintained for all purchases. This documentation should also include evidence of proper supervisory review and approval of all purchases. All purchases of goods and services should be marked received by a person held responsible for the receipt of that purchase.

5. Schedule of Long-Term Debt

Comment: Long-term debt is intended to be maintained by the City in the Quickbooks financial system. However loan balances are not current.

Recommendation: We recommend the City maintain the long-term debt account balances in Quickbooks.

Appendix II – DEFINITIONS

The definition of a deficiency that is established in Statements on Auditing Standards AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows: A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as

designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Durant

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012**

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Qualified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major program:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major program: Qualified
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes.
7. Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant - State's Program

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? No.

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Material Weaknesses:

Finding 2012-1:

Criteria: A functioning system of internal controls requires timely reconciliations of the general ledger to supporting schedules/registers.

Condition: The reconciliations of cash accounts to the City's general ledger improved in 2012. However two cash accounts reported by the City did not agree with bank reconciliations. The City reported \$172,525 less cash than was reflected in the bank reconciliations.

Cause: The cause of this condition is that the City of Durant has errors in financial accounts from prior years and accounting personnel are not trained in the remedy thereof.

Effect: Management reports to the Board and Mayor could be inaccurate.

Recommendation: The City should ensure that bank reconciliations are accurately and timely prepared and that other accrual accounts, discussed in the management letter, be analyzed and adjusted to actual.

Finding 2012-2:

Criteria: A functioning system of internal controls require a system which will ensure that all financial reports to management and regulators are complete and timely.

Condition: The financial books of the City did not include the Grant checking account which contained transactions of \$864,438. The Cash Receipts and Disbursements Statement in this document has been adjusted to include these transactions.

Cause: The cause of this condition is that the City accounting personnel were not trained in this requirement.

Effect: Management reports to the Board and Mayor were inaccurate and Federal reporting requirements were not fulfilled (see Finding 2012-3 & 2012-4).

Recommendation: The City should ensure that all transactions are accurately and timely entered into the City's financial software system.

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Section III: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following findings and questioned costs related to the federal awards.

Material Weakness and Material Noncompliance:

Finding 2012-3:

CFDA Program: Community Development Block Grant 14.228
Requirement: Reporting
Questioned Costs: \$0

Criteria:

The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, and auditor's reports to the Federal clearinghouse and make it available for public inspection 9 months after the end of the period audited, or within a longer timeframe as authorized by the Federal agency when the 9-month timeframe would place an undue burden on the entity.

Condition:

The City did not transmit the 2012 audit reporting package to the Federal Audit Clearinghouse within the required timeline, and there was no authorized extension.

Cause:

The cause of the above condition is primarily due to management not prioritizing timeliness.

Effect:

The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996.

Recommendation: We recommend that the City prioritize timeliness in order to comply with the above criteria.

Prior Year Status: The lack of timely transmittal of the annual audit reporting package was noted per the fiscal year 2011 report date but not reported as a finding in the Schedule of Questioned Costs of the City in fiscal year 2011.

Auditee Response and Corrective Action Plan:

City acknowledges the late submission of the 2012 audit report and understands that the 2013 audit report is already behind schedule but will be timely with the FY 2014 audit submission.

Full name of the person responsible for the corrective action plan:

Ursula Holley, City Clerk

When will the corrective action plan be implemented:

This will be fully implemented by June 30, 2015 for the 2014 audit report.

Material Weakness:

Finding 2012-4:

CFDA Program: Community Development Block Grant 14.228

Requirement: Reporting

Questioned Costs: \$0

Criteria:

A functioning system of internal controls requires that reconciliations of the general ledger to supporting registers allow for accurate federal reports from the underlying financial system and provide a resource to management for control and compliance procedures.

Condition:

The 2012 Schedule of Federal Expenditures was not reconciled to the general ledger records until after March 10, 2014.

Cause:

The cause of this condition is that timeliness was not a component of the quality control system during fiscal year 2012.

Effect:

The effect of this condition is that there was no timely identification and resolution of misclassifications or adjustments that might have affected federal reporting. Because of the lower emphasis placed on timeliness, noncompliance could occur with requirements of the awarding federal program.

Prior Year Status:

This condition was cited in the 2011 Single Audit.

Recommendation:

The City of Durant should place priority on timeliness.

Auditee Response and Corrective Action Plan:

We agree with this finding. The City Clerk will review the current staffing situation in order to determine who this corrective action will be taken.

Responsible Party:

Ursula Holley, City Clerk

When will the corrective action plan be implemented:

Immediately.

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