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Town of Gunnison Mississippi
Compilation Report and Compliance Letter
September 30, 2003

Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd., Suite 2N
St. Louis, MO 63147
(314) 869-2720 (Office)
(314) 869-5955 (Fax)

Town of Gunnison Mississippi

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Charles Buchanan, CPA, PC
Certified Public Accountant
8733 Riverview Blvd., Suite 2N
St. Louis, MO 63147
(314) 869-2720 (Office)
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**SPECIAL REPORT ON AGREED-UPON
PROCEDURES FOR SMALL MUNICIPALITIES (TOWNS)**

Honorable Mayor and Board of Alderman
Town of Gunnison
Gunnison, Mississippi

We have applied certain agreed-upon procedures, as discussed below, to the accounting records of the Town of Gunnison, Mississippi, as of September 30, 2003, and for the year then ended, as required by the Office of the State Auditor, under the provisions of Section 21-35-31, Mississippi Code Ann. (1972). It is understood the report is solely for the use of the governing body of the Town of Gunnison, Mississippi, and the Office of the State Auditor and should not be used for any other purposes. Our procedures and findings are as follows:

1. We reconciled cash on deposit with the following banks to balances in the respective general ledger accounts and obtained confirmation of the related balances from the banks:

<u>Bank</u>	<u>Fund</u>	<u>Balance Per General Ledger</u>
State Bank and Trust	General	\$1,195
State Bank and Trust	Proprietary	296
State Bank and Trust	General	815
State Bank and Trust	Restricted	160
State Bank and Trust	General	3,670
First National Bank	Restricted	30
First National Bank	General	<u>374</u>
Total		<u>\$6,540</u>

2. We performed the following procedures with respect to taxes on real and personal property (including motor vehicles) levied during the fiscal year:
 - a. Verify use of certified county assessment rolls and trace levies to governing body minutes;
 - b. Examined uncollected taxes for proper handling, including tax sales;
 - c. Traced distribution of taxes collected to proper funds; and
 - d. Analyzed increase in taxes for most recent period for completion with increase limitations of Sections 27-39-320 to 27-39-323, Mississippi Code Ann. (1972).

The distribution of taxes to funds was found to be in accordance with prescribed tax levies, and uncollected taxes were determined to be properly handled.

Ad valorem tax collections were found to be within the limitations of Sections 27-39-320 to 27-39-323, Mississippi Code Ann. (1972).

Ad valorem tax collections for the retirement of general obligation debt was found to be sufficient for payment of current principal and interest in accordance with limitations imposed by Sections 21-33-87 and 21-33-303, Mississippi Code Ann. (1972).

3. We obtained a statement of payments made by the Department of Finance and Administration to the municipality. Payments indicated were traced to deposit in the respective bank accounts and recorded in the general ledger without exception. Payments traced were as follows:

<u>Payment Purpose</u>	<u>Receiving Fund</u>	<u>Ledger Amount</u>
Sales Tax Allocation	General Fund	\$2,618
Gasoline Tax	General Fund	781
Homestead Exemption Reimbursement	General Fund	2,140
Fire Protection Allocation	General Fund	2,696

4. We selected a sample of purchases made by the municipality during the fiscal year. Each sample item was evaluated for compliance with purchasing requirements set forth in Title 31, Chapter 7, Mississippi Code Ann. (1972), as applicable. A fire destroyed the town hall in June of 2003. The sample of invoices selected did not represent the entire population.

The sample consisted of the following:

Number of Sample Items	60
Total Dollar Value of Sample	\$31,523

We found the municipality's purchasing procedures to be in agreement with the requirements of the above-mentioned sections.

5. We have read the Municipal Compliance Questionnaire completed by the municipality. The following responses to the questionnaire indicate noncompliance with state requirements.
 - a. The town could not find the ordinance book. Therefore, no ordinances had been entered, as required by Section 21-13-13.
 - b. The police vehicles had no license plates and did not have the proper markings, as required by Sections 25-1-87 and 27-19-27.
 - c. The town did not post notices of special or recess meeting, as required by Section 25-41-13.
 - d. All required town personnel were not covered by appropriate surety bonds, as required by Sections 21-3-5, 21-21-1, and 45-5-9.
 - e. The municipality did not contract with a Certified Public Accountant or an auditor approved by the State Auditor for its annual audit within twelve months of the end of the fiscal year, as required by Section 21-35-31.
 - f. All claims were not paid by the town in the order of their entry in the claims docket, as required by Section 21-39-9.
 - g. The municipality's claims docket does not identify the claimant, claim number, amount and fund from which each warrant will be issued, as required by Section 21-39-7.
 - h. All warrants were not approved by the board, signed by the mayor or majority of the board, attested to by the clerk and bearing the municipal seal, as required by Section 21-39-13.
 - i. Warrants for approved claims were not held until sufficient cash was available in the fund from which it is drawn, as required by Section 21-39-13.
 - j. The municipality did not adopt and enter on its minutes a budget in the format prescribed by the Office of the State Auditor, as required by Sections 21-35-5, 21-35-7, and 21-35-9.
 - k. The town did not hold a public hearing and publish its adopted budget, as required by Section 21-35-5.

- l. The town did not comply with legal publication requirements when budgetary changes of 10% or more were made to a department's budget, as required by Section 21-35-25.
- m. The municipality did not have financial statements to determine if revenues were less than estimated and a deficit was anticipated. Therefore, the board did not revise the budget by its regular July meeting, as required by Section 21-35-25.
- n. The town did not maintain final records in accordance with the chart of accounts prescribed by the State Auditor, as required by Section 21-35-11.
- o. The municipality did not submit to the board a monthly report of expenditures against each budget item for the preceding month and fiscal year to date and the unexpended balances of each budget item, as required by Section 21-35-13.
- p. The town did not commission municipal depositories, as required by Sections 27-105-353 and 27-105-363.
- q. The town did not tag or account for fixed assets, as required by Section 7-7-211-Municipal Audit Guide).
- r. Travel was not authorized in advance and reimbursements were not made in accordance with Section 25-3-41.
- s. Travel advances were not made in accordance with the State Auditor's regulations, as required by Section 25-3-41.
- t. The town did not document all one-source items and emergency purchases on the board's minutes, as required by Section 31-7-13(m) and (k).
- u. The town did not conduct an annual land sale for delinquent ad valorem taxes, as required by Section 21-33-63.
- v. The municipality did not collect taxes from all transient vendors within the town in accordance with Section 75-85-1.
- w. State-imposed court assessments were not collected and settled monthly, as required by Section 99-19-73.
- x. All fines and forfeitures were not collected when due and settled immediately to the municipal treasury in accordance with Section 21-17-1.

Because the above procedures do not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts or classes of transactions referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe the items specified in Paragraphs 1, 2 and 3 should be adjusted. Had we performed additional procedures or had we conducted an audit of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report should not be associated with the financial statements of the Town of Gunnison, Mississippi, for the year ended September 30, 2003.

Charles Buchanan, CPA, PC
January 23, 2004
St. Louis, MO

Town of Gunnison Mississippi
Combined Statement of Cash Receipts and Disbursements (All Funds)
For the Fiscal Year Ended September 30, 2003

	<u>General</u>	<u>Proprietary Funds</u>	<u>Total (Memorandum Only)</u>	
			<u>2003</u>	<u>2002</u>
Revenue Receipts:				
General property taxes	\$ 22,354	\$ -	\$ 22,354	\$ 9,094
Penalties and interest-delinquent taxes	-	-	-	-
Franchise taxes-utilities	1,740	-	1,740	-
Intergovernmental Revenues:				
COPS (Federal)	27,379	-	27,379	15,799
General municipal aid (State)	-	-	-	-
Homestead exemption	-	-	-	-
State Shared Revenues:				
Sales tax	6,240	-	6,240	1,842
Gasoline tax	-	-	-	-
Grand Gulf	-	-	-	-
Public safety	-	-	-	-
Alcoholic beverage licenses	-	-	-	-
Fire insurance premiums	-	-	-	-
County Shared Revenues:				
Road maintenance	-	-	-	-
Rail car tax	-	-	-	-
Licenses and permits	50	-	50	-
Interest	-	-	-	-
Rent	-	-	-	-
Miscellaneous	24,591	-	24,591	20,289
Charges for Services:				
Garbage	-	92,068	92,068	-
Water and sewer	-	6,270	6,270	43,869
Court fines	10,385	-	10,385	1,900
Total receipts	<u>92,739</u>	<u>98,338</u>	<u>191,077</u>	<u>92,793</u>
Other receipts:				
Sale of bonds	-	-	-	-
Bank loans	-	-	-	-
Loans and transfers	41,169	28,184	69,353	18,689
Total other receipts	<u>41,169</u>	<u>28,184</u>	<u>69,353</u>	<u>18,689</u>
Total receipts	<u>133,908</u>	<u>126,522</u>	<u>260,430</u>	<u>111,482</u>
Cash Balance-Beginning of Year	<u>(34,904)</u>	<u>52,395</u>	<u>17,491</u>	<u>7,908</u>
Total Amount to Account For	<u>99,004</u>	<u>178,917</u>	<u>277,921</u>	<u>119,390</u>
Operating Disbursements:				
General government (Executive/Financial)	97,909	-	97,909	31,607
Public Safety:				
Police	20,332	-	20,332	3,273
Fire	5,396	-	5,396	-
Enterprise:				
Water and sewer	-	17,069	17,069	7,821
Highways and streets	12,515	-	12,515	8,802
Building and plant	-	-	-	-
Interest on bonds	-	-	-	-
Paying agent fees on bonds	-	-	-	-
Utilities	13,313	-	13,313	5,940
Other	8,115	-	8,115	9,968
Total Operating Disbursements	<u>157,580</u>	<u>17,069</u>	<u>174,649</u>	<u>67,411</u>
Other Disbursements:				
Bonds retired	-	-	-	-
Notes paid	-	-	-	-
Capital outlay	-	-	-	-
COPS	27,379	-	27,379	15,799
Loans and transfers	41,169	28,184	69,353	18,689
Total Other Disbursements	<u>68,548</u>	<u>28,184</u>	<u>96,732</u>	<u>34,488</u>
Total Disbursements	<u>226,128</u>	<u>45,253</u>	<u>271,381</u>	<u>101,899</u>
Cash Balance-End of Year	<u>(127,124)</u>	<u>133,664</u>	<u>6,540</u>	<u>17,491</u>
Total Amount Accounted For	<u>\$ 99,004</u>	<u>\$ 178,917</u>	<u>\$ 277,921</u>	<u>\$ 119,390</u>

See accompanying notes and accountant's compilation report.

Town of Gunnison Mississippi
Notes to the Financial Statements
September 30, 2003

Note A: Summary of Significant Accounting Policies

General Information

The town operates under the Mayor/Board of Aldermen form of government and provides services as authorized by law.

Reporting Entity

The financial statement of the town consists of all the funds of the town.

Fund Accounting

The accounts of the town are organized on the basis of 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 prescribed 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.

Note B: Report Classifications

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

Note C: Contingent Liability-Litigation

There were no known litigation at the balance sheet date, however the town received grants from state and governmental agencies that require compliance audits to determine whether grants were expended in accordance with the grants regulations. There is a probability that the town did not expend these grants in accordance with grant regulations.

Town of Gunnison Mississippi
Schedule of Surety Bonds for Municipal Officials
September 30, 2003

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Bond Amount</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Status</u>
Michael Knowlton	Alderman	Western Surety Company	15,000	8/9/2002	8/9/2006	In-Force
Geraldine Evans	Alderman	Western Surety Company	15,000	5/19/2003	5/19/2007	In-Force
John Calmese	Alderman	Western Surety Company	15,000	7/24/2003	7/24/2006	In-Force
Lee Bassie	Alderman	Hartford Fire Insurance Company	15,000	7/7/2003	7/7/2004	In-Force
Sharon Denise Shavers Hobbs	City Clerk	Western Surety Company	10,000	1/17/2002	1/14/2006	In-Force
Rosie Scott	Alderman	Western Surety Company	15,000	7/26/2003	7/26/2006	In-Force
Sharon Denise Shavers Hobbs	City Clerk	Western Surety Company	10,000	10/9/2002	10/9/2003	In-Force
Alice Lawson	Maintenance Supervisor	Western Surety Company	10,000	3/13/2003	3/13/2004	In-Force

See accompanying notes and accountant's compilation report.

**Charles Buchanan, CPA, PC
Certified Public Accountant
8733 Riverview Blvd., Suite 2N
St. Louis, MO 63147
(314) 869-2720 (Office)
(314) 869-5955 (Fax)**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

Honorable Mayor and Board of Alderman
Town of Gunnison
Gunnison, Mississippi

We have audited the general-purpose financial statements of the Town of Gunnison as of and for the year ended September 30, 2003 and have issued our report dated January 23, 2004. We have conducted our audit 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*.

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 results of those procedures and our audit of the general-purpose financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

- 2003-1 Observation:** We noted bank statements for the following accounts were not reconciled to the general ledger:
- | | |
|-------------------|---------------------|
| General | Tobacco Enforcement |
| Water | Sewer |
| 1995 CDBG | Court Assessment |
| Rehab | Universal COPS |
| 1988 CDBG | Recreational Park |
| Crime Prevention | Water Deposit |
| Replacement House | |
- Criteria:** Bank reconciliations are an essential element in determining if transactions are properly recorded and discovering errors or omissions in a timely manner. Generally accepted accounting principles require, and effective internal controls demand accurate, complete and timely prepared bank statement reconciliations to ensure that all items of income and expense are reported and that the financial statements are complete.
- Effect:** The town did not have an accounting system. If they did, their financial statements would have been misstated, inaccurate and misleading. Also, budget revenue and expense reports would be inaccurate.

- Recommendation:** We recommend the Town of Gunnison obtain financial expertise in this area and ensure that bank reconciliations are reconciled by comparing the balance sheet reported cash balances to the monthly bank reconciliations. To further strengthen controls, the Mayor, or her designee, should receive all unopened bank statements, review all or a sample of checks written for signatures and familiarity with vendor names, and initial and date the bank statement to indicate her review prior to giving them to the clerk for reconciliation. Once a year, or more, the Mayor or her designee, should hand deliver payroll checks to each employee, personally. These measures are highly effective when a town does not have adequate staffing to help segregate duties.
- Response:** The Town of Gunnison has hired a new town clerk proficient in financial matters. There will be an ongoing line of communication with the Mayor and town clerk to make sure that bank reconciliations are done monthly.
- 2003-2 Observation:** We noted no evidence that the Town of Gunnison published or posted an ad, or contacted vendors to request proposals for the selection of a depository.
- Criteria:** Section 27-105-1 et seq., Mississippi Code Ann. (1972) requires municipalities to select depositories for no more than a two-year term.
- Effect:** By not requesting proposals from depositories, the town did not engage in fair and competitive practices.
- Recommendation:** We recommend the Town of Gunnison contact local depositories and ask them to submit a bid.
- Response:** The Town of Gunnison will post and publish an ad to request proposals for the selection of a depository. The posting will be done every two years, as required by state regulations.
- 2003-3 Observation:** The Town of Gunnison did not have an accounting system for financial statement preparation.
- Criteria:** Section 21-35-11, Mississippi Code Annotated (1972) states that accounting records must conform to the system prescribed by the State Auditor and correspond to the budget line items and basis of accounting. It also states that the city clerk must maintain the records and is liable for damages to the municipality if records are not maintained as required.
- Effect:** The town was not in compliance with state laws.
- Recommendation:** We recommend the Town of Gunnison purchase an accounting system and implement the cash basis of accounting as prescribed by the Office of the State Auditor.
- Response:** The Town of Gunnison has purchased an accounting system and will implement the cash basis of accounting as prescribed by the Office of the State Auditor.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended for the information of the Town of Gunnison's management 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.

Charles Buchanan, CPA, PC
 January 23, 2004
 St. Louis, MO

Follow-Up on Prior Audit Findings

**Charles Buchanan, CPA, PC
Certified Public Accountants
8733 Riverview Blvd, Suite 2 N
St. Louis, MO 63147
(314)-869-2720 (Bus)
(314)-869-5955 (Fax)**

Management Letter

Honorable Mayor and Board of Alderman
Town of Gunnison
Gunnison, Mississippi

In planning and performing certain agreed-upon procedures as of and for the two years ended September 30, 2003, we considered the Town of Gunnison's internal controls in order to determine our procedures and not to provide assurance on the internal controls. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal controls would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

REPORTABLE CONDITIONS

- 2003-1 Observation:** We noted that Mississippi Development Authority (MDA) had requested A-133 audits from the town since 1990 for various housing grants awarded to the town. In addition, the Justice Department has requested audits from 1998 through 2003.
- Criteria:** MDA has subsequently frozen the town's last grant and reported that the town had nearly \$300,000 left on it award. The Justice Department will not give the town any more funding for the COPS program that was awarded at \$149,000. Consequently, the town is unable to obtain any federal or state grants, except emergency purposes such as when the water pump failed.
- Recommendation:** We strongly recommend the town complete it's A-133 audits for the periods requested.
- Response:** We have approved an auditor to perform these audits but do not have the funds at this time to compensate them for services.
- 2003-2 Observation:** Certain invoices could not be located in a timely manner. Out of 120 invoices selected for testing over the two-year period, only 70% of the invoices were located, excluding those we suspected would have been destroyed in the fire.

- Criteria:** The above-mentioned items are a very important part of the audit trail. They assist the accountants as well as the town clerk in keeping up with the town's revenues and expenditures. Paid invoices and cancelled checks document approval and appropriateness of expenses.
- Recommendation:** We recommend that the town implement a better filing system for invoices (perhaps by vendor).
- Response:** We will discuss this issue with the town clerk and take the necessary steps to correct the problem.
- 2003-3 Observation:** We noted that certain checks written to Piggly Wiggly, Radio Shack, Double Quick, and Boyle Lumber were not approved by the Board. Additionally, America Online (AOL) was drafting the town's bank account for 4 accounts. The town did not have any AOL service at city hall or any other location. Furthermore, a certain part-time police officer was paid the police chief's full-time salary without board knowledge or approval. Also, this part-time officer's college tuition (more than \$2,000) was paid without board approval or knowledge. This part time officer is related to the former city clerk
- Criteria:** Section 21-39-13 requires all warrants to be approved by the board, signed by the mayor or majority of the board, attested to by the clerk and bearing the municipal seal.
- Recommendation:** We recommend that the town request an "investigation" audit from the Investigative Division of the Office of the State Auditor.
- Response:** The town requested a "special" audit on October 8, 2003 and was denied by the state auditor. The state auditor is not authorized to conduct "regular" audits of municipalities. We will resubmit our request for an "investigation" audit instead of a "special" audit.

We received complete cooperation from the Town of Gunnison's staff and officers. We welcome the opportunity to discuss the issues mentioned in this letter, or any other accounting and procedural problems in order to coordinate our efforts with you, the mutual objectives being the development of more effective accounting, financial reporting and business procedures for the town.

We understand that some of the aforementioned issues are in the process of implementation or may already have been implemented after this report date; however, these issues are noted so that effective follow-up can be accomplished.

Thank you for the opportunity to be of service to you. We sincerely appreciate all the courtesies and cooperation extended to us by you and your staff, and we remind you that we are available on a year-round basis. Please do not hesitate to call us whenever you believe we can be of assistance.

This report is intended solely for the information and use of the Mayor and the Board of Alderman of the Town of Gunnison Mississippi.

Charles Buchanan, CPA, PC
 January 13, 2004
 St. Louis, Missouri