



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

DATE: August 19, 2009

TO: Governor Granholm

FROM: Ecorse Financial Review Team:
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Steven M. Bieda
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SUBJECT: Report of the Ecorse Financial Review Team

On July 8, July 16, July 20, July 28, August 12, and August 18, 2009, Ecorse Financial Review Team members met and reviewed information relevant to the financial condition of the City of Ecorse. Based upon those reviews, the Review Team concludes, in accordance with Section 14 (3)(c) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, that a local government financial emergency exists within the City because no satisfactory plan exists to resolve a serious financial problem, and recommends the appointment of an emergency financial manager.

I. Background

A. Preliminary Review

On March 17, 2009, the Department of Treasury commenced a preliminary review of the finances of the City of Ecorse to determine whether or not a serious financial problem existed. Section 12(1) of the Act requires that a preliminary review be conducted if one or more of the conditions enumerated therein occurs. The preliminary review of the City of Ecorse resulted from the condition enumerated in subdivision (m) of Section 12(1) having occurred within the City.¹

The preliminary review commenced on March 17, 2009, found, or confirmed, the following:

- For the 12-month period from March 2008 to February 2009, the City received over \$17 million in property tax collections. During a typical year, City collections for its own operations are approximately \$7 million. However, during the 12-month period in question, the City transferred

¹ Subdivision (m) provides that “[t]he local government is delinquent in the distribution of tax revenues, as required by law, that it has collected for another taxing jurisdiction, and that taxing jurisdiction requests a preliminary review.”

approximately \$9.6 million to its general fund and payroll account. In effect, the City borrowed \$2.6 million, which it had collected on behalf of other taxing units of government, and used that amount to fund its own operations. This borrowing resulted in an untimely disbursement of those taxes by the City to the other taxing units of government in violation of Public Act 206 of 1893, the General Property Tax Act.²

For example, during July 2008, the preliminary review estimated that the City collected over \$1.6 million in property taxes for the Ecorse School District. However, a payment of only \$1,250,000 was made by the City to the School District on August 14, 2008. Similarly, the preliminary review estimated that during August 2008, the City collected more than \$1.0 million in property taxes for the School District. However, the preliminary review found no evidence of any disbursements by the City to the School District until October 1, 2008, and then only in the amount of \$500,000.³

- The City faced significant cash-flow shortages, reflected by negative cash balances in various funds, and transfers to the general fund from the current tax collection fund and from other restricted funds, such as the major street fund and local street fund. These transfers represented unauthorized interfund borrowing resulting in fewer resources for the funds from which monies were borrowed. At the time the preliminary review was conducted, the City was late in filing its financial audit for its most recently completed fiscal year. Therefore, the preliminary review was unable to determine the precise amount of any interfund borrowing for the period July 1, 2007 through June 30, 2008. However, during the City's 2007 fiscal year, for example, its general fund borrowed \$333,132 and \$231,538 from the major street fund and the local street fund, respectively.
- For the last six fiscal years, the City had not filed timely annual financial audit reports with the Department of Treasury as required by Public Act 2 of 1968, the Uniform Budgeting and Accounting Act:

| <u>Fiscal Year Ending</u> | <u>Due date</u> | <u>Date Filed</u> |
|---------------------------|-------------------|--------------------|
| June 30, 2003 | December 31, 2003 | February 24, 2004 |
| June 30, 2004 | December 31, 2004 | March 31, 2005 |
| June 30, 2005 | December 31, 2005 | April 12, 2006 |
| June 30, 2006 | December 31, 2006 | November 19, 2007 |
| June 30, 2007 | December 31, 2007 | September 11, 2008 |
| June 30, 2008 | December 31, 2008 | July 23, 2009 |

² As indicated more fully in footnote 3, Section 43 of the General Property Tax Act generally requires that the treasurers of local tax-collecting units of government (cities and townships) remit property taxes on hand within 10 business days of the first and fifteenth day of each month, unless an alternative remittance schedule is provided for.

³ The preliminary review was completed and filed with the Governor on April 22, 2009. The City's annual financial audit for its 2008 fiscal year, which was not filed with the Department of Treasury until July 23, 2009, indicated that the \$2.6 million in property tax collections owed to other taxing jurisdictions had increased to \$6.8 million.

- Annual general fund expenditures of the City consistently exceeded general fund revenues, resulting in accumulated deficits. The preliminary review found that deficit elimination plans required by Public Act 140 of 1971, the Glenn Steil State Revenue Sharing Act of 1971, had not eliminated the deficits. No deficit elimination plan was filed for 2006. The City did file a deficit elimination plan on October 25, 2008, for the fiscal year ending June 30, 2007. However, the Department of Treasury did not certify the plan because it did not provide adequate assurances that the deficits would be eliminated. The City's general fund has consistently operated in a deficit condition since at least 2004. (The \$1,495,441 operating surplus for the 2004 fiscal year was an aberration; it reflected a one-time, \$2.4 million litigation-related payment from a corporate taxpayer, but for the receipt of which there would have been an operating deficit.) In regards to deficits in City funds other than the general fund, the preliminary review found that the City appeared to be making progress in their reduction and eventual elimination.
- For several years, the City had recurring internal control deficiencies in regards to its financial operations. The City's audit firm noted in the 2007 fiscal year audit that "[i]n auditing the financial statements for the year ended June 30, 2007, we encountered some of the same deficiencies as referred to in our management letters related to the audits for the years ended June 30, 2006 and June 30, 2005. Some of the following comments have also been noted in prior auditors management letters related to the audits for the years ended June 30, 2004 and 2003." The audit firm also indicated the following:

We noted that the City does [*sic*] has virtually no formal internal controls and review processes that have been designed, documented, adopted, implemented, reviewed, and maintained. As a result, the City is consistently not prepared for its annual audit and is often not in a position to adequately assess and correct or update its own accounting operations and transactions in a timely and complete manner. These include such areas as internal analytical review of all of its own transactions monthly, ability to prepare accurate and timely balances which the City can compare against budgets to know where the City stands financially on a monthly basis and not have to wait until after the annual external audit is complete to actually be sure, perform monthly close-outs of the accounting books and records, preparing monthly complete financial statements for council review, etc.

The preliminary review found no evidence to suggest that City officials had resolved the ongoing issues of internal controls deficiencies during the 2008 fiscal year (for which an audit had not then been filed), or for the current fiscal year. These recurring issues included, but were not limited to: the lack of a capital assets schedule, recurring deficit spending, component units not being presented, bank reconciliations not being performed timely, the general ledger not being reviewed for accuracy, and incorrect general ledger entries needing material audit adjustments.

Based upon the preliminary review, the State Treasurer concluded, and reported to the Governor on April 22, 2009, that a serious financial problem existed and recommended the appointment of a financial review team.

B. Review Team Findings

On June 29, 2009, the Governor appointed a seven-member Financial Review Team. The Review Team convened on July 8, 2009, July 16, 2009, July 20, 2009, July 28, 2009, August 12, 2009, and August 18, 2009, to consider information relevant to the financial condition of the City of Ecorse.

1. Conditions Indicative of a Serious Financial Problem

The Review Team found, or confirmed, the existence of the following based upon information provided by City officials, or the City's audit firm, or other relevant sources:

- According to the City's fiscal year 2008 financial audit, the City's general fund deficit increased by 76 percent from \$5,266,275 as of June 30, 2007 to \$9,270,027 as of June 30, 2008. The one-year increase in the City's general fund deficit of \$4,003,752 resulted from general fund expenditures exceeding general fund revenues by \$3,225,765, plus \$777,987 in transfers out of the general fund.
- The amount of property tax collections owed by the City to other taxing jurisdictions, including this State, increased from an estimated \$2.5 million to approximately \$6.8 million. The \$6.8 million reflects the accumulated extent to which the City continues, in violation of State law, to utilize property tax revenues due to other units of government to maintain its own spending levels.⁴

⁴ Section 43 of Public Act 206 of 1893, the General Property Tax Act provides, in part, as follows****:

(3) Except as provided in subsections (4) and (5), tax collections shall be delivered pursuant to the following schedule:

(a) Within 10 business days after the first and fifteenth day of each month, the township or city treasurer shall account for and deliver to the county treasurer the total amount of state and county tax collections on hand on the first and fifteenth day of each month; to the school district treasurers the total amount of school tax collections on hand on the first and fifteenth day of each month; and to the public transportation authorities the total amount of public transportation authority tax collections on hand the first and fifteenth day of each month. If the intermediate school district and community college district provide for direct payment pursuant to subsection (9), the township or city treasurer shall also account for and deliver to the intermediate school district and the community college district the total respective amounts of school tax collections on hand the first and fifteenth day of each month. This subdivision shall not apply to the month of March.

(b) Within 10 business days after the last day of February, the township or city treasurer shall account for and deliver to the county treasurer at least 90% of the total amount of state and county tax collections on hand on the last day of February; to the school district treasurers at least 90% of the total amount of school tax collections on hand on the last day of February; and to the public transportation authorities at least 90% of the total amount of public transportation authority tax collections on hand on the last day of February. If the intermediate school district and community college district provide for direct payment pursuant to subsection (9), the township or city treasurer shall also account for and deliver to the intermediate school district and community college district at least 90% of the total respective amounts of school tax collections on hand on the last day of February.

- City officials imposed a judgment levy of \$1.1 million during its 2008 fiscal year for the purpose of meeting certain pension obligations to the Municipal Employees Retirement System of Michigan (MERS). However, according to the City's auditors, for the second consecutive fiscal year City officials did not remit the judgment levy proceeds to MERS, but instead transferred those proceeds to the City's general fund to fund general operations.⁵
- The City's fiscal year 2008 financial audit contained an adverse opinion. An adverse opinion is an auditors' statement that the financial statements definitively do not present information fairly in accordance with generally accepted auditing principles and that one cannot rely upon the information in the financial statements because it is misleading relative to accounting or presentation in accordance with generally accepted standards. The City's fiscal year 2008 financial audit was its second consecutive audit containing an adverse opinion.
- The foregoing financial audit and accompanying management letter to City officials underscored the precarious and serious financial condition of the City. For example, the management letter identified 25 significant deficiencies, 13 of which the City's auditor considered to be material weaknesses.⁶ (See Attachment 1.) Furthermore, the audit cautioned that "[t]he ability of the city to continue as a going concern is dependent upon acceptance of the deficit elimination plan which implements cost cutting and revenue generating steps that include better management, considering

⁵ On October 31, 1989, the Wayne County Circuit Court entered an order in the case of *Board of Trustees of the Ecorse Police and Fire Pension Fund v City of Ecorse, et al*, which required the City to pay by March 15 each year \$1.1 million toward the retirement of a \$12,929,609 unfunded accrued liability. If, by November 1 of a given year, the City did not have on hand sufficient funds to remit payment the following March 15, the Court order required that a judgment levy be placed upon the tax rolls of the City by not later than December 1. By its own terms, the Court order applied "only to the City of Ecorse Police and Fire Pension fund and [did] not include or pertain to any amounts payable by [defendants] to the Michigan Municipal Employees Retirement System or any retirement system which includes employees of the City of Ecorse." As of the writing of this Review Team report, it is unclear whether the City continues to have legal authorization to impose the judgment levy because it is unclear from City records how much, if any, of the original \$12,929,609 unfunded accrued liability remains.

Arriving at a precise answer to the matter has been complicated by two factors. First, it appears that at some point during the late 1980s, the Police and Fire Pension Fund was closed and that police and firefighters hired after that date became part of the Municipal Employees Retirement System of Michigan (MERS). It also appears that then-existing police and firefighters were given the option to remain in the Police and Fire Pension Fund or to transfer to MERS. Second, according to anecdotal information provided to the Review Team, the majority of the annual \$1.1 million levy -- approximately \$900,000 annually -- was being utilized not to reduce the unfunded accrued liability, but rather to meet monthly pension obligations because the Police and Fire Pension Fund was insolvent. What is clear, however, is that there is no legal authority for the City to impose the judgment levy in a given year and then expend some, or all, of the proceeds of the judgment levy for general operations of the City.

⁶ In its June 12, 2009, transmittal letter to City officials, the City's auditors defined the term "material weaknesses" as "a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Ecorse, Michigan's internal controls."

health care insurance expense sharing with employees, reduction in work force[sic], etc." However, to date, City officials have yet to submit to the Department of Treasury a suitable and realistic deficit elimination plan which the Department might be able to certify.

- As depicted in the table below, general fund expenditures of the City consistently have exceeded general fund revenues in recent years. As a result, the \$5.4 million general fund surplus which the City had as of June 30, 2004, had become a \$3.9 million general fund deficit by June 30, 2006. The general fund has been in an increasingly deficit position since that time.

| | General Fund Revenues, Expenditures, and Change in Fund Balance | | | | |
|------------------------------|--|---------------|---------------|----------------|----------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
| Revenue | \$14,247,580 | \$11,866,986 | \$10,554,750 | \$10,765,419 | \$12,682,583 |
| Expenditures | \$12,752,139 | \$14,678,832 | \$14,411,937 | 13,164,211 | 15,908,348 |
| Operating Surplus/(Deficit) | \$1,495,441 | (\$2,811,846) | (\$3,857,187) | (\$2,398,792) | (\$3,225,765) |
| Transfers/Other Fin. Sources | (\$224,367) | (\$1,363,844) | (\$1,333,214) | (\$1,915,344) | (\$777,987) |
| Beginning Balance | \$4,142,509 | \$5,413,583 | \$1,237,893 | (\$3,952,508) | (\$5,266,275)* |
| Ending Balance | \$5,413,583 | \$1,237,893 | (\$3,952,508) | (\$5,867,852)* | (\$9,270,027) |

*The fiscal year 2007 ending balance of (\$5,867,852) was restated to (\$5,266,275) by City officials; fiscal year 2009 data was not yet available.

2. Review Team Meetings

On July 8, 2009, the Review Team met with Jack Martin, Monica Meyers, and John Gallagher of the certified public accounting firm Martin, Arrington, Desai & Meyers.

On July 16, 2009, Review Team members Steven M. Bieda, James R. DeSana, Frederick Headen, John G. McNally, and Gregory E. Pitoniak conducted a series of meetings in the City of Ecorse with Erwin Hollenquest, Controller; Robert Worthy, Deputy Police Chief; Reginald Dalton, Fire Chief; Doris J. Young, City Treasurer and Rhonda Major, Deputy City Treasurer; John E. Miller, Jr., Brownfield Redevelopment Authority Chairman; Melissa Hudson, Water Department Billing Clerk; Michael F. Ciungan, Chief Judge, 26th District Court; and Ron French, President, Ecorse Firefighters Union; Lamar Tidwell, President, Ecorse Police Union; and Shawna Passalacqua, President, American Federation of State, County and Municipal Employees.

On July 20, 2009, the Review Team met with Herbert Worthy, Mayor; Erwin Hollenquest, Controller; Sequara Henry, City Attorney; Jack Martin, of Martin, Arrington, Desai & Meyers; and Darcel

Brown, Council President; and John E. Miller, Jr., and James Tassis, Councilmembers.

C. Conclusion and Recommendation

Based upon the foregoing meetings and review, the Review Team confirms the findings of the preliminary review, concludes that a local government financial emergency exists within the City of Ecorse because no satisfactory plan exists to resolve a serious financial problem, and recommends the appointment of an emergency financial manager.

II. Section 14(2) Requirements

Section 14(2) of Act 72 requires that this report inform the Governor whether one or more of the conditions set forth in that section exist, have occurred, or are likely to exist or occur if remedial action is not taken.⁷ The conditions in subdivisions (b)(ii), (e), and (f) of Section 14(2) exist, have occurred, or are likely to exist or occur if remedial action is not taken, as follows:

- As previously noted, the amount of property tax collections owed by the City to other taxing

⁷ Section 14(2) of Act provides as follows:

(a) A default in the payment of principal or interest upon bonded obligations or notes for which no funds or insufficient funds are on hand and segregated in a special trust fund.

(b) Failure for a period of 30 days or more beyond the due date to transfer 1 or more of the following to the appropriate agency:

(i) Taxes withheld on the income of employees.

(ii) Taxes collected by the government as agent for another governmental unit, school district, or other entity or taxing authority.

(iii) Any contribution required by a pension, retirement, or benefit plan.

(c) Failure for a period of 30 days or more to pay wages and salaries or other compensation owed to employees or retirees.

(d) The total amount of accounts payable for the current fiscal year, as determined by the state treasurer's uniform chart of accounts, is in excess of 10% of the total expenditures of the local government in that fiscal year.

(e) Failure to eliminate an existing deficit in any fund of the local government within the 2-year period preceding the end of the local government's fiscal year during which the review team report is received.

(f) Projection of a deficit in the general fund of the local government for the current fiscal year in excess of 10% of the budgeted revenues for the general fund.

jurisdictions, including this State, was estimated by the City's auditors to be approximately \$6.8 million as of June 30, 2008. (Section 14(2)(b)(ii)).

- Deficiencies in the City's property tax collection and distribution process resulted in Industrial Facility Tax payments owed to the State not being remitted in a timely manner as required by State law. (Section 14(2)(b)(ii)).
- The City had a general fund deficit of \$9,270,027 as of June 30, 2008, which was not eliminated within the two-year period preceding the end of the fiscal year of the City during which this Review Team report is received. (Section 14(2)(e)).
- As noted, the accumulated general fund deficit for the fiscal year that ended June 30, 2008, was \$9,270,027. In a meeting with the Review Team, City officials articulated their expectation that the general fund deficit for the current fiscal year that ends June 30, 2010, will be significantly reduced. However, the estimate of City officials appears optimistic given that it included proceeds from the sale of real estate which has not yet occurred. Nevertheless, even were the estimate of City officials to be realized, it still would exceed 10 percent of the \$15,461,527 in general fund revenues budgeted for the 2010 fiscal year. (Section 14(2)(f)).

III. Review Team Report Transmittal Requirements

Section 14(3) of Act 72 requires that a copy of this report be transmitted to Mayor Worthy, Ecorse City Councilmembers, the Senate Majority Leader, and the Speaker of the House of Representatives.

cc: Herbert Worthy, Mayor
Ecorse City Councilmembers
Mike Bishop, Senate Majority Leader
Andy Dillon, Speaker of the House of Representatives

Attachment 1

The 13 material weaknesses referred to on Page 5 of this report, which the City's auditors identified in their June 12, 2009, management letter that accompanied the City's 2008 fiscal year financial audit, were findings 1, 2, 3, 5, 7, 11, 12, 14, 17, 21, 22, 23, and 24, which are recited verbatim:

1. "All bank accounts were not reconciled in a timely manner during the year and an outside consultant was retained to perform this function. Numerous journal entries were proposed, including transfers between bank accounts, which were never recorded or recorded incorrectly. General ledger cash transactions were posted incorrectly to bank accounts and deposits were made to the wrong bank account.

"We recommend that the City of Ecorse reconcile all of their bank accounts timely and minimize or eliminate any large journal entries to reconcile its bank accounts. In many instances disbursements were not posted to the general ledger or posted incorrectly. Substantial audit effort was required in analyzing the general ledger cash accounts."

2. "Those responsible for accepting payments on behalf of the City are also responsible for bank deposits, entering receipts to the computer system, and reconciling receipts with bank deposits. Strong internal controls require the segregation of key duties and responsibilities in order to reduce the risk of error or possible improprieties. At a minimum, the clerks should do the entering of the receipts and a review should be performed by the deputy treasurer. Currently, there is no review performed by anyone in the Treasurer's office.

"The policy and procedures manual for the Treasurer's office, including position descriptions, with delineated job duties and responsibilities is outdated. We recommend that such a manual be revised and maintained in a current manner. The Treasurer's Office seems to have presented more issues and problems overall this year. The Treasurer's Office either did not have or did not make available complete supporting data (i.e. treasury copies of receipts, other department copies of receipts, remittance advices, consistency of numerically sequenced receipts available, etc.) for the auditors in a timely manner, which appears to be a result of untimely posting dates, cashier balance reports, deposit slip dates, remittance advice dates, etc. This delayed the audit testing of numerous transactions which affect cash, receivables, and revenues, etc. All these matters required additional work to test, record, adjust, and for reclassify the related balances.

"We noted that funds received are not consistently deposited in a timely manner and are not recorded in the general ledger in a timely manner. We recommend that procedures be established and enforced to deposit monies daily. We further recommend that deposits be recorded in subsidiary journals and the general ledger promptly. Prompt deposits reduce defalcation opportunity and will ensure that all funds are available for investment. Prompt recording of receipts will provide up to date records, reduce the likelihood of duplicate payments being accepted, and assist in reconciliation activities.

"We noted deposits made to wrong bank accounts which resulted in cash receipts being recorded incorrectly. We recommend that communication with the Controller's department

take place when needed, to determine the proper accounts to which a deposit should be credited.

“The Treasurer's office (and accounting system) did not have available a typical cash receipts journal which presented all of the cash receipts activity in one report. As a result:

- a) Numerous large binders containing cashier's balance reports had to be manually searched to determine corresponding dates;
- b) Many of the posted dates in the cashier's balance reports did not agree to the dates in the general ledger for various items;
- c) There were also instances in which the deposit slip dates were more than one business day before the bank deposit (or bank statement) receipt date, with no apparent reason available.

“Only one individual in the Treasurer's office enters data into the City's accounting systems. We recommend that other office employees be trained to enter data into the systems. This will allow for more timely processing of transactions and also provide for better internal controls since more than one person will have system access, reducing the opportunity for manipulation of the data.

“We recommend that the City Treasurer's office take steps to segregate duties in relation to cash handling and bank deposit procedures.”

3. “The City continues to process receipts and disbursements through the general ledger, without consistent and adequate review or adjustment to reconcile the entries made on a timely basis, or at all. During our audit, we noted instances where items were not posted, or were posted to incorrect accounts or funds.

“We recommend that general ledger review be performed monthly to diminish the propensity of recording errors at year end.”

5. “There were instances in which wire transfers were authorized by only one individual and never recorded in the general ledger. Expenditures for the general fund were paid by other restricted funds and never recorded.

“We recommend that the City take steps to more clearly define and regulate how and by whom cash disbursements may be authorized and made, and segregate duties where necessary. Furthermore, the City should periodically review its cancelled checks and disbursement documentation and meet with bank officials to ensure that the bank is clearly understanding and following all prescribed disbursement guidelines and procedures of the City.”

7. “We noted that the water department did not have a system of controls in place to ensure the accuracy of transactions processed. The balance of accounts receivable is not reconciled with the general ledger. The difference between the water funds accounts receivable general ledger

balance and the water fund accounts receivable trial balance report was a material unreconciled variance. We noted numerous differences existing between various customer accounts receivable water balances in the water accounts receivable trial balance ledger and the actual customer water balance due to the city. In addition, the water accounts receivable aging is not adequately adjusted to remove old accounts receivable that no longer exist or are valid, nor adequately adjust all existing accounts receivable aging balance.

“We recommend that the City thoroughly analyze the details of its aging reports and adjust and update them until they are accurate and are reconciled to the general ledger balance.”

11. “We noted that accounts payable disbursements are run bi-weekly, subsequent to Council approval of vendor invoices. A review of vendor payments after year-end is not performed to determine if the expenditures should be accrued and included as expenses for the prior year.

“We recommend that invoices processed for payment 60 days after the end of the fiscal year be reviewed and any items found that are applicable to the prior year be accrued for proper inclusion in the financial statements.”

12. “We noted that accurate accounts receivable and accounts payable aging reports for the year June 30, 2008 either did not exist or could not be produced at all. As a result, there is no reconciliation between the actual aged balance and the general ledger. Also, prepaid expenses, other receivables, and other payables were not updated.

“We recommend that accounts receivable and accounts payable aging reports be maintained, agree to the general ledger and that prepaid expenses, other receivables and other payable are updated annually.”

14. “As of June 30, 2008, the accounting department was still not capable of preparing internal financial reports for use by Council, or a complete set of financial statements or identifying budget expense over-runs or revenue shortfalls in a timely manner, and for billing purposes where applicable. A complete and up to date accounting system is crucial for internal control purposes, yet, such a system has not been maintained by the City in recent years.

“We recommend that the City should evaluate low cost commercial off the shelf (COTS) solutions to correct its financial management system deficiencies.”

17. “No complete fixed asset inventory was provided by either the Police Department or the Fire Department, and the fixed assets inventory is missing a number of key components. The city does not maintain adequate internal controls for fixed assets and a general fixed asset account group was not properly maintained during the year. Proper accounting procedures require the City to maintain an inventory of all fixed assets. It is the responsibility of the City to update the fixed assets for additions and deletions. We recommend that the City develop a property management system that includes all of the following:

- a. All assets owned by the City should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory process but will also make it more

difficult for assets of the city to be removed or used by unauthorized personnel.

- b. As part of the property management system, the City should keep records on all of the assets owned by the City, which includes the following information: date of acquisition, tag number, description of property, original cost of assets and location of the asset.
- c. Reconciliations need to be made between the general ledger's capital outlays for the year.

“While the City has established a dollar limit of \$2,000 and a five year life to classify each purchase as capital outlay expenditure, it must also simultaneously record the asset in the general fixed asset account (control and subsidiary records). Developing a property management system that includes the above steps will not only facilitate the preparation of the financial statements related to the fixed assets and provide a system of protection for the assets, but will also provide an excellent record for insurance and replacement purposes as well.”

- 21. “The Controller position performs numerous functions for the City, which are not normally included with controllership duties. Some of those functions are purchasing, labor negotiations, and tax tribunal activities. Due to the amount of time spent on these activities, the financial and accounting functions do not receive adequate attention. A great deal of audit time is spent analyzing accounts and recording transactions. These items should be performed by the Controller's office prior to audit commencement.”

“We recommend that the City either reduce the duties of the Controller to financial and accounting functions or hire a qualified accountant to assist in performing those functions. While various accounting assistants were employed during the 2008 fiscal year, the overall state of the accounting records showed no indication of significant improvement over prior years. This is partially due to the fact that no comprehensive monthly analysis of the details of all the individual general ledger transactions is performed by qualified accounting personnel. This lack of continuity, compounded by the absence of accounting policies and procedures, results in a lack of consistency in the preparation and maintenance of accounting records.”

- 22. “Cash for fines, bonds, probation, garnishments and restitution of cases are received by Court Department staff. The transactions are input into the Judicial Information System (JIS) utilized by the Court Department when funds are received. The cash is submitted to the Treasurers Department for deposit into the Fiduciary checking account maintained by the City of Ecorse. In May of 2007, the Court opened a separate checking account to exclusively handle bond transactions. The Treasurer's Department records revenue to the general ledger monthly based on the JIS report generated and submitted by the Court Department. The report formal submitted includes revenues received for probation collections, bonds, and bond forfeitures in addition to fines. Disbursement information for checks issued from the original checking account is forwarded from the Court Department to the Controller's Department. The information such as check number, payee and amount are entered and tracked on an excel spread sheet. The information is to be inputted into the general ledger for the Court under Fund 761. Bond deposits received by the Court are deposited directly into the new checking account by

Court Department personnel. Copies of the deposits are maintained with the Daily Transaction Reports and original court checking deposit slips.

“The following itemizes a number of problems associated with the process and accounting of fines and bond transactions:

The monthly report generated by the JIS System is submitted to the City's Treasurer to record revenue transactions by the Court Department. The format of the report is not readily conducive for input into the City's accounting system. We found inconsistencies in the general ledger accounts used for the reporting of liability amounts to the city and State of Michigan. Payments for probation revenues and bond foreclosures are incorrectly recorded to the Court general ledger cash account because these amounts are included in the monthly report total. These funds are actually deposited and recorded in the General Fund cash account. We found that daily deposit slips generated by the Court Department and submitted to Treasury for deposit had an average 10-day time of deposit to the bank. Discussion with the Deputy Treasurer indicated that deposits are submitted to the bank in an enclosed deposit bag, subject to count and verification by the bank. There were no bank reconciliations performed for either of the court bank accounts for the fiscal year. In addition, there was no review to assure that deposit slips prepared by the Court Department were correctly deposited to the bank account.

“We recommend that a process for reconciling and posting Court receipts be reviewed and developed by all departments involved to adequately and accurately account and report court transactions in the accounting system. A system of review and assurance is required that all funds received by the Court Department have been deposited to the appropriate bank account. Timely preparation of the accounts bank reconciliation is paramount to this process.

“The Controller's Department also utilizes the same report for applying and posting payments for these liabilities. We found that payments issued in prior periods were not applied to the same general ledger account as the cash liability was posted. We also noted there were no postings of payments issued to the general ledger for fiscal year ended June 30, 2008.

“We recommend that the issuance of checks from the Court checking account be recorded to the general ledger accounting system on a monthly basis.

“We found that the new bond checking account is completely maintained and utilized by the Court Department. All bond receipts are deposited to the account, and check disbursements made from the account by Court staff. The new account is not reflected on the general ledger of the City, and transactions are not forwarded to the City for accounting purposes. In addition, there was no bank reconciliation completed as of June 30, 2008.

“We recommend that an account be created in the accounting system chart of accounts to allow for the recording of transactions posting through the new bond account. In addition, copies of bank deposits and check disbursements should be submitted to the Controllers Department for recording purposes.

“We found the cash balance of the new bond account does not have enough funds to support the liability as reported by the Court Departments Open Bond Report. The account deficit of \$36,839 would appear to be the result of bond funds deposited in the original account and not transferred to the new bond account.

“We recommend that the Court issue a check in the amount of \$36,839 to agree and support the liability reflected in the open bond schedule for June 30, 2008.

“We noted 32 overall liability accounts reflected on the Court Fund Trial Balance. As noted in the above findings, the City does not currently have an effective and consistent process of recording deposits and payments to the correct general ledger account. The liability accounts are normally remitted with one check to the City and one or two to the State of Michigan. An allocation to the various accounts is required by both the Controller and Treasurer Departments.

“We recommend all three departments review and devise a small select number of accounts that would facilitate timely and accurate input of the transactions on a monthly basis.”

23. “Union contracts and employment agreements provide for the accrual of days for vacations, sick time, and other purposes. Several departments maintain their own records of paid time off. These records are not in an auditable condition since time sheets or time cards indicating the amount of time accrued and taken for vacation, sick and compensatory time are not maintained.

“We recommend that time records be properly maintained, by the payroll section of the Controller's office, noting the accrual and usage of compensated absences.”

24. “We noted that there was no detail for the fire insurance account. There is a liability recorded on the books but no detail as to the date, property address and dollar amount. In the past, the Fire Chief maintained this information.

“We recommend that the City determine what properties should be included in the fire escrow account and update when necessary.”