

City of Shannon Hills, Arkansas

Agreed-Upon Procedures Report

December 31, 2002 and 2001

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF SHANNON HILLS, ARKANSAS
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Senate Co-Chair
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House Co-Chair
Sen. Henry "Hank" Wilkins, IV
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House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

Independent Accountant's Report
on Applying Agreed-Upon Procedures

City of Shannon Hills, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have performed the procedures enumerated below with respect to modified cash basis financial information and state law compliance which were agreed to by the management of the City and the Legislative Joint Auditing Committee for the City of Shannon Hills, Arkansas as of and for the years ended December 31, 2002 and 2001. Management is responsible for maintaining the financial records and complying with state law. This report is prepared in accordance with Ark. Code Ann. 10-4-202 but the procedures enumerated below were not performed for the following: Water and Sewer Fund. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings for the General (Street, Special Revenue and LOPFI) and Trust and Agency (Marshal's Bond and Fine, Court Clerk and Firemen's Pension) Funds are as follows:

1. Cash and Investments

- a. Perform a proof and reconciliation of cash for the year.
- b. Confirm the cash on deposit and investments with the depository institutions.
- c. Agree the proof of cash ending balances to the City book balances within 5% or \$500, whichever is greater.
- d. Perform cash count on December 10, 2002 and reconcile to receipts issued but not yet deposited to Marshal's Bond and Fine account.
- e. Obtain bank microfilm of at least two (2) deposits made in 2002 and compare to receipts issued for all funds except for the Firemen's Pension and LOPFI Funds.

We found the following exceptions as a result of the above procedures:

1. The Marshal's Bond and Fine and Court Clerk Fund proof of cash ending balance did not agree with the City book balance due to journals not being maintained in 2002 and 2001.
2. Cash on hand at the cash count performed December 10, 2002 in the amount of \$3,259.03 could not be reconciled to receipts issued but not yet deposited due to receipts not being deposited intact.

2. (A) Receipts (All funds except Bond and Fine and Court Fund)

- a. Agree the deposits per the proof of cash for the year with the receipts per the City journal within 5% of deposits or \$500, whichever is greater.
- b. Determine that state turnback, sales taxes, fire protection funds and pension funds paid by the State of Arkansas were deposited in the proper fund.
- c. Agree one month's receipts issued with the receipts per the receipt journal within 5% of receipts issued or \$500, whichever is greater, for all funds except the Payroll Funds.
- d. Add all receipts issued for the year 2002 and agree with the deposits per proof of cash.

2. (B) Receipts (Bond and Fine and Court Fund)

- a. Agree the deposits per the proof of cash for the year with the receipts per the City journal within 5% of deposits or \$500, whichever is greater.
- b. Add all receipts issued for the year 2001 and for the period January 1, 2002 to February 27, 2003 and agree with the deposits per the proof of cash for the periods.
- c. Review the City internal control policies and procedures.

We found the following exceptions as a result of the above procedures:

2. (A) Receipts (All Funds except Bond and Fine and Court Fund)

- 1. The General Fund deposits per proof of cash were \$65,479.25 more than receipts per the City journal due to unrecorded deposits in 2001 and the LOPFI Fund deposits made in 2002 were not receipted.
- 2. A Street Fund receipt for state turnback in the amount of \$8,170.69 was recorded and deposited in the General Fund.
- 3. Receipts were not issued for deposits made to the LOPFI Fund in July 2002 and 2001.

2. (B) Receipts (Bond and Fine and Court Fund)

- 1. Journals were not maintained for the Marshal's Bond and Fine and Court Clerk Funds.
- 2. Receipts issued for the period January 1, 2002 to February 27, 2003 for the Marshal's Bond and Fine Fund were \$13,946.50 more than deposits as follows:

Receipts (numbers 12590 - 12942)	\$	64,637.67
Less deposits		<u>50,691.17</u>
Receipts over deposits	\$	<u><u>13,946.50</u></u>

City Court Clerk Karen Brown made reimbursement to the Bond and Fine account on January 23, 2003 in the amount of \$11,648.50 and on March 31, 2003 in the amount of \$2,298.00 for total reimbursement of \$13,946.50.

- 3. The Marshal's Bond and Fine Fund lacked adequate segregation of duties for recording cash receipts issued, deposit slip preparation and bank reconciliation functions.

3. Disbursements

- a. Agree the disbursements per the proof of cash for the year with the disbursements per the City journal within 5% of disbursements or \$500, whichever is greater.
- b. For 10% of disbursements (maximum of 30 for all funds, with at least one disbursement per fund except the Bond and Fine and Court Funds), determine that disbursements were documented and paid in accordance with any applicable code provisions. (Materiality level - 5% of the total dollars of selected disbursements or \$500, whichever is greater.)

We found the following exceptions as a result of the above procedures:

- 1. The Marshal's Bond and Fine and Court Clerk Fund disbursements per proof of cash did not agree with disbursements per journal due to journals not being maintained in 2002 and 2001.
- 2. The LOPFI Fund disbursements per proof of cash in 2001 were \$720.44 more than the disbursements per the City journal due to unrecorded transfers out.

4. General Fixed Assets

- a. Conduct a physical inventory of all additions over \$500 and prior years equipment items over \$5,000.
- b. Determine that additions and disposals were properly accounted for in the City records. (Materiality level - 5% of total General Fixed Assets equipment or \$500, whichever is greater.)

We found the following exceptions as a result of the above procedures:

The City did not maintain updated fixed asset records for the years 2002 and 2001.

5. Uniform Traffic Tickets

Randomly select 10 uniform traffic tickets and trace them to the court docket and receipt for payment or to an outstanding warrant, the continued cases list or dismissal of the case by the Judge.

We found no exceptions as a result of the procedures.

6. State Law Compliance

Evaluate the extent to which the City complied with the following state laws as of and for the years ended December 31, 2002 and 2001:

- A. Municipal Accounting Law (14-59-101 et seq.)
- B. Municipal/City Courts Accounting Law (16-10-201 - 16-10-210)
- C. Budgets (14-58-201 - 14-58-203)

The commentary contained in this section relates to the following officials that held office during 2002 and 2001:

Mayor: Larence Davis
Recorder/Treasurer: Fran Romine
City Court Clerk: Karen Brown
Police Chief/Marshal: John Brown

Instances of noncompliance are failures to follow the requirements, or violations of prohibitions, contained in the above referenced laws. The results of our application of the stated procedure disclosed no material instances of noncompliance with the provisions of the referenced laws in the office of **Mayor** and the following material instances of noncompliance with the provisions of the referenced laws in the offices of **Recorder/Treasurer, Police Chief/Marshal** and **City Court Clerk**. Materiality is defined as noncompliance findings having a significant impact on the accounting records and/or operations of the City.

The **Recorder/Treasurer** did not maintain updated fixed asset records as required by Ark. Code Ann. 14-59-107.

The **Police Chief/Marshal's** bank accounts were not reconciled, receipts were not deposited intact daily and the bank balance was not identified with receipts issued but not yet entered on the arrest report as required by Ark. Code Ann. 16-10-207. Arrest reports were not prepared and completed ticket books were not filed with the Court Clerk as required by Ark. Code Ann. 16-10-207.

The **Court Clerk's** bank accounts were not reconciled and the balance identified with receipts issued for cases not yet adjudicated as required by Ark. Code Ann. 16-10-209. Cash receipts and disbursements journal was not properly maintained and court reports were not prepared as required by Ark. Code Ann. 16-10-209.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee and City management and is not intended to be and should not be used by anyone other than these specified parties.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
March 11, 2003
LOM216902

City of Shannon Hills, Arkansas

**Compiled Financial Statements and
Accountant's Compilation Report**

December 31, 2002 and 2001

**Mayor: Larance Davis
Recorder/Treasurer: Fran Romine**

LEGISLATIVE JOINT AUDITING COMMITTEE



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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

ACCOUNTANT'S COMPILATION REPORT

City of Shannon Hills, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have compiled the accompanying financial statements as of and for the years ended December 31, 2002 and 2001 as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on a modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures, the General Fixed Assets account group and the financial activities of the Water and Sewer Fund ordinarily included in financial statements prepared on the modified cash basis of accounting. If the omissions described above were included in the financial statements, they might influence the user's conclusions about the City's assets, liabilities, fund equity, receipts, disbursements and changes in fund balances. Accordingly, these financial statements are not designed for those who are not informed about such matters.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
March 11, 2003
LOM216902

CITY OF SHANNON HILLS, ARKANSAS
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY - MODIFIED CASH BASIS
 DECEMBER 31, 2002

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	December 31, 2002
ASSETS				
Cash and cash equivalents	\$ 49,709	\$ 179,877	\$ 45,021	\$ 274,607
Interfund receivables		8,171		8,171
TOTAL ASSETS	\$ 49,709	\$ 188,048	\$ 45,021	\$ 282,778
LIABILITIES AND FUND EQUITY				
Liabilities:				
Payroll taxes withheld		\$ 11		\$ 11
Bonds, fines and costs pending			\$ 7,125	7,125
Interfund payables	\$ 8,171			8,171
Total Liabilities	8,171	11	7,125	15,307
Fund Equity:				
Fund balances:				
Reserved:				
Employees' pension benefits			37,896	37,896
Unreserved:				
Undesignated	41,538	188,037		229,575
Total Fund Equity	41,538	188,037	37,896	267,471
TOTAL LIABILITIES AND FUND EQUITY	\$ 49,709	\$ 188,048	\$ 45,021	\$ 282,778

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit B

	General	Special Revenue	Totals (Memorandum Only) Year Ended December 31, 2002
RECEIPTS			
Intergovernmental revenues - state	\$ 32,912	\$ 116,262	\$ 149,174
Property taxes	33,333	15,309	48,642
Franchise taxes	77,373		77,373
Sales taxes	66,927		66,927
Fines, forfeitures and costs	29,401		29,401
Interest	635	895	1,530
Local permits and fees	14,746		14,746
Other	45,317	6,022	51,339
	300,644	138,488	439,132
TOTAL RECEIPTS			
DISBURSEMENTS			
Current:			
General government	109,996		109,996
Law enforcement	209,624	24,609	234,233
Highways and streets		69,775	69,775
Public safety		1,012	1,012
	319,620	95,396	415,016
TOTAL DISBURSEMENTS			
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(18,976)	43,092	24,116
FUND BALANCES - JANUARY 1	60,514	144,945	205,459
FUND BALANCES - DECEMBER 31	\$ 41,538	\$ 188,037	\$ 229,575

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUND - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2002

Exhibit C

	<u>Firemen's Pension</u> <u>December 31,</u> <u>2002</u>
ASSETS	
Cash and cash equivalents	<u>\$ 37,896</u>
 FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	 <u><u>\$ 37,896</u></u>

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
 STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit D

	<u>Firemen's Pension</u> <u>Year Ended December 31, 2002</u>
ADDITIONS	
Contributions:	
Other sources - state funds	\$ 1,012
Investment income:	
Interest	<u>512</u>
TOTAL ADDITIONS	<u>1,523</u>
DEDUCTIONS	
Benefits	4,080
Administrative expense	<u>26</u>
TOTAL DEDUCTIONS	<u>4,106</u>
NET INCREASE	(2,582)
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	
BEGINNING OF YEAR	<u>40,478</u>
END OF YEAR	<u><u>\$ 37,896</u></u>

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY - MODIFIED CASH BASIS
 DECEMBER 31, 2001

Exhibit A-1

	Governmental Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	December 31, 2001
ASSETS				
Cash and cash equivalents	\$ 68,685	\$ 136,831	\$ 45,574	\$ 251,090
Interfund receivables		8,171		8,171
TOTAL ASSETS	\$ 68,685	\$ 145,002	\$ 45,574	\$ 259,261
LIABILITIES AND FUND EQUITY				
Liabilities:				
Payroll taxes withheld		\$ 57		\$ 57
Bonds, fines and costs pending			\$ 5,096	5,096
Interfund payables	\$ 8,171			8,171
Total Liabilities	\$ 8,171	\$ 57	\$ 5,096	\$ 13,324
Fund Equity:				
Fund balances:				
Reserved:				
Employees' pension benefits			40,478	40,478
Unreserved:				
Undesignated	60,514	144,945		205,459
Total Fund Equity	\$ 60,514	\$ 144,945	\$ 40,478	\$ 245,937
TOTAL LIABILITIES AND FUND EQUITY	\$ 68,685	\$ 145,002	\$ 45,574	\$ 259,261

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2001

Exhibit B-1

	General	Special Revenue	Totals (Memorandum Only) Year Ended December 31, 2001
RECEIPTS			
Intergovernmental revenues - state	\$ 34,066	\$ 110,807	\$ 144,873
Property taxes	30,037	12,394	42,431
Franchise taxes	81,244		81,244
Sales taxes	68,450	3,610	72,060
Fines, forfeitures and costs	30,069		30,069
Interest	1,656	1,910	3,566
Local permits and fees	12,288		12,288
Other	35,685	1,265	36,950
	<u>293,494</u>	<u>129,986</u>	<u>423,480</u>
TOTAL RECEIPTS			
DISBURSEMENTS			
Current:			
General government	122,235		122,235
Law enforcement	179,240	10,572	189,812
Highways and streets		68,181	68,181
Public safety		720	720
	<u>301,474</u>	<u>79,473</u>	<u>380,947</u>
TOTAL DISBURSEMENTS			
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(7,980)	50,513	42,533
FUND BALANCES - JANUARY 1	<u>68,494</u>	<u>94,432</u>	<u>162,926</u>
FUND BALANCES - DECEMBER 31	<u>\$ 60,514</u>	<u>\$ 144,945</u>	<u>\$ 205,459</u>

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUND - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2001

Exhibit C-1

	<u>Firemen's Pension December 31, 2001</u>
ASSETS	
Cash and cash equivalents	<u>\$ 40,478</u>
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	<u><u>\$ 40,478</u></u>

See Accountant's Compilation Report.

CITY OF SHANNON HILLS, ARKANSAS
 STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2001

Exhibit D-1

	Firemen's Pension Year Ended December 31, 2001
ADDITIONS	
Contributions:	
Other sources - state funds	\$ 720
Investment income:	
Interest	1,451
TOTAL ADDITIONS	2,171
DEDUCTIONS	
Benefits	4,080
Administrative expense	178
TOTAL DEDUCTIONS	4,258
NET INCREASE	(2,087)
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	
BEGINNING OF YEAR	42,565
END OF YEAR	\$ 40,478

See Accountant's Compilation Report.