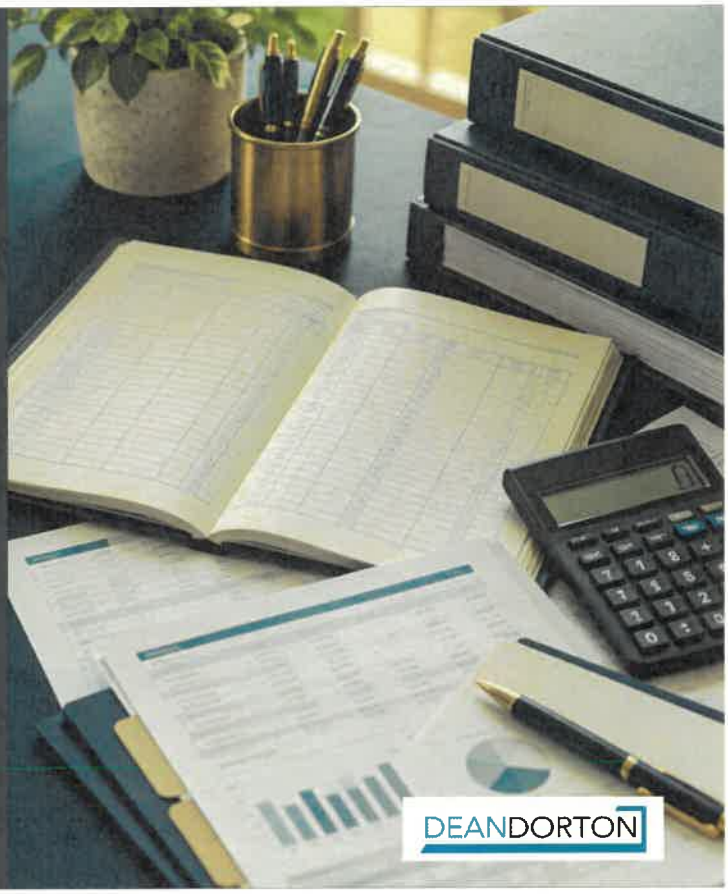
City of Fort Thomas

General Fund Forensic Review

Public meeting, Date TBD

The evidence points to a long-running failure of basic accounting controls. Targeted testing found no unauthorized payments to the officials tested.

Scope, procedures and observations



Scope and objective

The 2025 internal review uncovered a $322,498 General Fund cash discrepancy.

ENGAGEMENT OBJECTIVE

Verify the accuracy of the write-off, determine the source and timeframe of the errors, and identify which prior expenses contributed to the difference.

REVIEW BOUNDARIES

July 1, 2020 to June 30, 2024

Context reviewed back to fiscal year 2017, the earliest available reconciliation workpapers.

Primary bank accounts

General
Accounts Payable
Payroll

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Procedures designed to separate error from misconduct

The work reconstructed cash activity and directly tested the risk of unauthorized payments.

Reconstruct the records

- Interviewed City management and accounting staff about processes, discovered issues, and remediation
- Reviewed internal documentation and work papers from prior internal review and audits
- Converted four years of bank activity into analysis-ready data
- Compared selected ledger activity with bank transactions and supporting records

Test the risk of misuse

- Traced payroll cash flows, withholdings, benefit transfers, and processing fees
- Analyzed correcting journal entries and the affected general ledger accounts
- Prepared annual cash-outflow summaries for management review
- Performed targeted testing of payments to the City Administrators and Director of Finance
- Reviewed prior financial statement audits

The procedures looked beyond bookkeeping errors and directly addressed the public's concern regarding misuse.

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What the review found

No evidence of unauthorized personal benefit to the officials tested

Targeted testing covered the City Administrative Officers and Director of Finance during the scope period.

Reconciliation bridge

Reported effect	Change	Running difference
Initial unreconciled difference	$322,498	$322,498
Correct unrecorded opioid settlement funds	+$390,899	$713,397
Correct unrecorded ARPA deposits	+$719,194	$1,432,591
Correct missed or mis-recorded payments	($585,256)	$847,335
Post-forensic review difference		**$847,335**

Root cause

A breakdown in basic accounting controls

- Multiple bank, investment, and CD accounts rolled into one General Fund cash ledger account
- Monthly reconciliations did not occur; differences extended back to at least FY2017
- Certain transactions were tracked outside the system and not recorded in the general ledger
- Payroll entries averaged 77 days late and sometimes exceeded seven months
- Gross payroll entries omitted withholding liabilities and related cash activity

The $847,335 remained a book-to-bank difference after identified adjustments. Targeted testing did not link it to unauthorized payments to then current City Administrative Officers or Director of Finance.

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Control recommendations

These actions directly address the conditions that allowed the cash difference to persist.

01	**Separate cash accounts**	Maintain one general ledger cash account for each bank, investment, and CD account.
02	**Reconcile every month**	Set a close deadline. Require preparer sign-off, independent review, and documented follow-up for unresolved items.
03	**Record payroll completely and on time**	Post every pay period, including net cash, employee withholdings, employer contributions, transfers, and processing fees.
04	**Strengthen journal-entry oversight**	Require transaction-level support and approval for correcting or catch-up entries. Report aged reconciliation items to City leadership.

Success measure: every cash account reconciles monthly, with documented follow-up for every unresolved item.

DRAFT

September 17, 2026

Personal & Confidential
City of Fort Thomas, Kentucky
Matthew Kremer, City Administrator
130 North Fort Thomas Avenue
Fort Thomas, KY 41075

RE: Status Report on Forensic Consulting Engagement For the City of Fort Thomas

Dear Matthew:

Dean Dorton Allen Ford, PLLC ("Dean Dorton") was engaged by the City of Fort Thomas (the "City") to provide forensic consulting services to investigate a $322,498 write-off attributed to historical accounting discrepancies spanning multiple years.[1] The scope of our forensic review was to verify the accuracy of the write-off amount, determine the source and timeframe of the errors, and determine which previous expenses were part of the $322,498.[2] Our forensic review covered the period of July 2020 – June 2024 (the "Scope Period"). The following summarizes our procedures, findings and recommendations.

I. Executive Summary

The evidence uncovered in our forensic review points to a long-running failure of basic accounting controls. Targeted testing found no unauthorized payments to then current City Administrative Officers or the Director of Finance during the Scope Period. The $322,498 write-off appears to be a culmination of numerous accounting errors leading to unrecorded and mis-recorded transactions causing both understatements and overstatements of cash. While our testing focused on the Scope Period of July 2020 – June 2024, we reviewed internal accounting records that indicate a significant cash discrepancy existed by at least 2017.

We reviewed the transactions recorded to correct the General Fund cash balance as part of the effort by the City to reconcile the General Fund cash discrepancy as of June 30, 2024. We found that two of the correcting entries related to unrecorded deposits received from the national opioid settlements were recorded incorrectly. The following summarizes the adjusted unreconciled balance of $713,397 after correcting the two opioid settlement deposit journal entries:

[1] August 25, 2025 Management Letter from Chamberlin Owen, Certified Public Accountants, to the Fort Thomas Mayor and Council Members.
[2] City of Fort Thomas, Kentucky Request for Proposal for Forensic Audit Services issued November 24, 2025.

Explanation	Effect on Discrepancy	Running Discrepancy
Initial unreconciled General Fund Cash discrepancy identified	$ 322,498	$ 322,498
Correct unrecorded opioid settlement funds received in FY23 and FY24	$ 390,899	$ 713,397
Revised June 30, 2024 unreconciled discrepancy (general ledger cash greater than bank cash)		$ 713,397

We note that the $713,397 discrepancy is a "net" overstatement of the General Fund balance in the City's general ledger, which consists of offsetting overstatements and understatements caused by various types of recording errors. And in fact, our review identified errors in the Scope Period that pushed the discrepancy in both directions. ARPA deposits totaling $719,194 were received in the bank but were not recorded in General Fund cash, causing General Fund cash in the general ledger to be understated. Separately, missed or mis-recorded outgoing payments totaling $585,256 caused General Fund cash in the general ledger to be overstated. Each of the four types of missed or mis-recorded payments listed below are recuring transactions related to payroll that extend back to the beginning of the Scope Period in July 2020. This indicates the overstatement of cash from these types of transactions would likely increase if the Scope Period was expanded to prior periods.

If the ARPA deposits and missed or mis-recorded outgoing payments had been recorded correctly, the unreconciled discrepancy would grow to $847,335.

Explanation	Effect on Discrepancy	Running Discrepancy
Revised June 30, 2024 unreconciled discrepancy	$ 713,397	$ 713,397
Correct unrecorded ARPA deposits	$ 719,194	$ 1,432,591
Correct missed or mis-recorded outgoing payments	$ (585,256)	$ 847,335
Post-forensic review June 30, 2024 unreconciled discrepancy (general ledger cash greater than bank cash)		$ 847,335

The City's financial statement auditor, Rankin, Rankin & Company ("Rankin"), reported significant deficiencies in the City's internal controls in its audit reports for fiscal years 2013-2021, including journal entries that were being recorded outside of the general ledger at year-end to prepare the financial statements and monthly reconciliations not being performed. While there is evidence that cash transactions went unrecorded in fiscal years 2022 and 2023 and no evidence that monthly bank reconciliations were performed by the City, Rankin reported no significant deficiencies in internal controls in its final two audit reports for fiscal years 2022 and 2023.

II. Background

In early 2025, then Director of Finance, Joe Ewald, was an on extended leave of absence from the office and working only part-time. Linda Chapman was hired in May 2025 to assist Mr. Ewald. Ms. Chapman began reviewing records and discovered the bank and investment accounts were not being reconciled to the general ledger on a monthly basis. She was informed by Mr. Ewald

that bank/investment account reconciliations were performed on an annual basis. Ms. Chapman began to identify various recurring and one-off transactions that were not recorded, mis-recorded or not recorded on a timely basis.

Around the same time, Jim Rankin, the lead audit partner for Rankin, the City's financial statement audit firm, became terminally ill. Our understanding is that Rankin ceased operations when Mr. Rankin passed away in 2025. The City engaged Chamberlin Owen & Co., Inc. ("Chamberlin Owen") to perform the financial statement audit for fiscal year July 2023 – June 2024. In June 2025, Chamberlain Owen was informed by Rankin that the General Fund cash account had not been reconciled for fiscal year end June 30, 2023 and that cash had been a problem every year they performed the audit.[3] Our understanding is that Rankin had been performing the annual financial statement audit since at least 1994. The General Fund cash account as of June 30, 2023 consisted of 12 separate bank, investment and certificate of deposit ("CD") accounts with a book balance totaling $19,298,750. A review of the City's internal workpapers related to the annual audit revealed that there was an unreconciled discrepancy between the General Fund cash balance in the general ledger and the actual balances for the various bank and investment accounts included in the General Fund going back to at least fiscal year 2016-2017, the earliest period such cash reconciliation documentation is available.

Ms. Chapman, Mr. Ewald and Chamberlin Owen began researching the General Fund activity to identify unrecorded or mis-recorded transactions causing the unreconciled discrepancy. The following summarizes the issues impacting the General Fund cash balance that were discovered and corrected for the period of July 2024 forward or in some cases, older transactions that were corrected with a prior period adjustment.

- Separate general ledger accounts were created for each bank, investment and CD account that was previously grouped together as General Fund cash. Monthly bank reconciliations were completed for each account for July 2024 forward.

- Unrealized gains and losses were not recorded for the Multi-Bank Securities account, one of the accounts rolled into the General Fund cash balance. The balance in the account was corrected when separate general ledger accounts were created for each bank, investment and CD account within the General Fund in July 2024, as discussed above.

- Cash receipts were posted on the date it was discovered on the bank statement or notice was received instead of in the month the revenue was received. This process has been corrected to post the activity in the month it occurred.

- Payroll entries were recorded as a gross amount with no withholdings and were not recorded on a timely basis. This contributed to several other errors related to payroll

[3] June 30, 2025 email from Karen Goodin (Rankin) to John Chamberlin (Chamberlin Owen).

discussed below. Withholding liability accounts have been set up and the payroll journal entry template was revised to properly account for each payroll.

- Transfers from the General Fund to the Medical Insurance Fund x9095 were not correctly recorded or reconciled.

- The employer portion of deferred compensation payments was not recorded.

- Payroll processing fees from Paycor and ADP were not recorded.

- An $850k loan on April 10, 2023 to the Quarter Group, an entity developing a restaurant in Fort Thomas, was not recorded. The prior Director of Finance noted it as a reconciling item in his attempts to reconcile the General Fund but did not record it in the general ledger. A prior period adjustment was recorded on July 21, 2025 to account for the loan.

- Deposits from opioid settlement totaling $168,681 in fiscal year 2023 and $222,219 in fiscal year 2024 were not recorded. A prior period adjustment was recorded on July 21, 2025 to account for the deposits.

- Deposits received through ARPA for 2021 and 2022 were not accounted for correctly. A prior-period adjustment was recorded on July 21, 2025 to correct the ARPA fund balance in deferred revenue.

Additional corrections were made to correct or remove old inter-fund payables and receivables. These corrections did not impact the General Fund balance:

- Removed $670k due from the CBD Fund to the General Fund.

- Removed $86,640 due to the CBD Fund from the General Fund.

- Corrected a $150,000 short-term loan from the General Fund to the Waste Fund. For the General Fund, a receivable from the Waste Fund was recorded. However, a corresponding payable to the General Fund was not recorded for the Waste Fund.

On August 25, 2025, Chamberlin Owen issued a letter to the City identifying financial reporting errors that were discovered and recommendations to improve internal controls. After adjusting for the discovered errors, Chamberlin Owen recommended a $322,498 reduction to the General Fund cash account to bring it back into balance. Dean Dorton's assignment was to investigate the June 30, 2024 unreconciled discrepancy and determine which unrecorded or mis-recorded transactions caused the difference.

III. Procedures

To investigate the June 30, 2024 unreconciled discrepancy, we performed the following procedures:

- Interviewed City management and accounting staff to gain an understanding of the City's accounting processes, the accounting issues that were discovered, and steps taken to remediate the issues.

- Reviewed documentation and prior work performed during the internal review that brought the cash discrepancy to light.

- Reviewed Rankin's financial statement audit reports for 2010 to 2023, its last audit.

- Reviewed the City's internal work papers related to the annual financial statement audit, including the reconciliation of the General Fund cash balance going back to fiscal year 2017, the earliest period such cash reconciliation documentation was available.

- Reviewed payroll documentation to gain an understanding of the flow of funds, recording of transactions, and amounts withheld from employee paychecks and paid to third parties or transferred to other City funds.

- Reviewed journal entries recorded to correct various issues that were discovered. Analyzed the general ledger accounts involved to determine whether similar activity during the scope period contributed to the unreconciled discrepancy.

- Obtained bank records for three primary bank accounts in the General Fund – General, Accounts Payable and Payroll – for the four-year Scope Period and converted the transactions to spreadsheet format for analysis using a forensic software tool.

- Prepared summaries of cash outflows by bank account for each fiscal year during the Scope Period for review by City management and accounting staff.

- Performed targeted testing to determine if the acting City Administrators or the Director of Finance, or their related entities, received any unauthorized payments during the Scope Period.

- Worked with the City to obtain General Fund revenue and expense detail for the Scope Period from eGov, the City's legacy accounting software, and Springbrook, the City's current accounting software. The conversion from eGov to Springbrook occurred in June 2023.

- Compared amounts recorded for certain general ledger accounts during the scope period to the underlying transactions in the bank records to determine whether transactions were

missed or mis-recorded contributing to the unreconciled discrepancy. Reviewed relevant supporting documentation to assist with this comparison and quantification.

IV. Findings

The following summarizes the findings of our forensic review.

A. The unreconciled discrepancy as of June 30, 2024 is $713,397 after correcting a prior period adjustment associated with the receipt of ARPA funds

As discussed in Section II above, the City, in conjunction with Chamberlain Owen, made correcting entries in their attempt to reconcile the General Fund cash balance. Ultimately, their work resulted in the $322,498 discrepancy that is the subject of our forensic review. We reviewed the correcting entries to better understand the discrepancy and verify the accuracy of the $322,498 write-off amount.

Two of the entries related to opioid settlement funds[4] totaling $390,899 that were received in FY2023 and FY2024. These entries to record the deposits debited General - Fund Balance but should have debited (increased) General Fund cash. After accounting for the correction of the prior-period adjusting entries for the opioid settlement funds, the unreconciled discrepancy as of June 30, 2024 increased by $390,899 to $713,397 (i.e., the cash balance in the general ledger is $713,397 higher than the cash balance in the bank).

B. Factors impacting the unreconciled discrepancy

There were several issues that contributed to the unreconciled discrepancy. These issues added to the complexity of reconciling the General Fund cash balance (and the 12 financial accounts held within it) in the normal course of business and during our forensic review.

1. Numerous bank and investment accounts included in one General Fund cash general ledger account

Instead of having a separate general ledger account in the City's accounting system for each bank, investment and CD account that was part of the General Fund, a single "General Fund cash" general ledger account represented the balance of all 12 financial accounts. Transfers between the financial accounts within the General Fund cash account were not recorded apparently because they netted to zero within the General Fund cash account.

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[4] The national opioid settlements comprise multiple nationwide legal agreements for pharmaceutical manufacturers, distributors and pharmacies to pay funds directly to state and local governments over an 18-year period. The funds are legally restricted for opioid remediation efforts, including addiction treatment, prevention, harm reduction, and recovery services.

2. The bank accounts in the General Fund cash general ledger account were not reconciled monthly

The previous Director of Finance failed to reconcile bank and investment accounts monthly. Instead, he attempted to reconcile all accounts at the end of each fiscal year. The internal work papers maintained by the City related to its year-end financial statement audits indicate there was an unreconciled discrepancy between the General Fund cash balance in the general ledger and the actual balances for the various bank accounts included in the General Fund cash account going back to at least fiscal year 2016-2017, the earliest period such cash reconciliation documentation is available.

We reviewed the City's audit reports issued by Rankin, going back to 2010. Rankin reported significant deficiencies in the City's internal controls in its audit reports for fiscal years 2016-2021 that included a recommendation of "reconciling the monthly trial balances to monthly records, such as bank reconciliations would make the year end reconciliations easier."[5] While there is no evidence that a monthly close process or monthly bank reconciliations were performed by the City, Rankin reported no significant deficiencies in internal controls in its final two audit reports for fiscal years 2022 and 2023.

3. Certain transactions were not recorded in the general ledger

In our review of the City's internal accounting records, including attempted year-end reconciliations of the General Fund cash, we noted certain transactions included as "reconciling items" on the cash reconciliation that were later discovered to have not been recorded in the general ledger. For fiscal years 2013-2021, Rankin identified significant deficiencies in internal controls, including the following:

> "In past years, the City has used elements of a general ledger system, primarily for recording cash activity during the year. At year end, that system was supplemented with spreadsheet journal entries to complete the trial balance for the year. While adequate for arriving at the year end trial balance, (used for preparing the financial statements), we believe that utilizing the full capability of the general ledger system would add to greater efficiency and control over the reporting of various entries during and at the year end."[6]

Rankin reported no significant deficiencies in internal controls in its final two audit reports for fiscal years 2022 and 2023.

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[5] *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* attached to Rankin's *Independent Auditor's Report on the Financial Statements of the City of Fort Thomas, KY*, 2016-2021.

[6] Ibid, 2013-2021.

4. Certain transactions were not recorded in the general ledger on a timely basis

Certain transactions were not recorded on a timely basis. For example, we noted that payroll, one of the City's largest recurring expenses, was not recorded on a timely basis. From July 2020 to June 2024, payroll was recorded on average 77 days after the payroll occurred and, in some cases, more than 7 months after the payroll occurred. See ***Exhibit 1***, which details the delay in recording payroll.

The delay in recording transactions also led to large "catch up" journal entries for certain accounts. We do not have supporting documentation to know exactly how Mr. Ewald calculated the entry amount or what "missed" transactions were included in these entries. Additionally, cash receipts were posted on the date the transaction was found on the bank statement or notice was received (i.e., the date of discovery) instead of in the month where the activity occurred and revenue was received.

5. Payroll journal entries were recorded at the "gross" level with no employee withholding liabilities recorded

In addition to not recording payroll entries on a timely basis, the entries were not recorded properly. The proper way to record the payroll entry is to debit salary expense and credit liability accounts for the amounts withheld from the employee's paycheck for taxes, retirement contributions, medical insurance and other benefits. A credit to cash is recorded for the balance of the paycheck paid directly to the employee (take home pay). Recording the employee withholding liabilities on the balance sheet accurately reflects the City's obligations and ensures the appropriate amounts are paid out on a timely basis. When the withheld amounts are paid to the appropriate third parties (taxing authorities, retirement account administrators, etc.) or transferred to the medical insurance fund, the liability is extinguished from the balance sheet. The net result once all withholdings are paid out is a salary expense for the full amount of the payroll and a reduction in cash for the same amount.

Instead of following the process described above, a shortcut was taken by recording payroll at the "gross" level with no employee withholding liabilities recorded. Salary expense was debited and cash was credited for the total payroll amount. Amounts withheld from employee paychecks for taxes, retirement contributions, medical insurance and other benefits were transferred out or paid to third parties; however, none of these transactions were recorded in the general ledger. Assuming all withheld amounts were properly paid, the net impact would be the same as the proper process described above: salary expense for the total amount of the payroll and a reduction in cash for the same amount. However, as a result of this apparent shortcut, the City's liabilities were not accurately reflected on its balance sheet and transactions were missed or mis-recorded. See ***Section IV.E*** for the impact of these missed or mis-recorded transactions on the unreconciled discrepancy.

C. ARPA deposits totaling $719,194 were not recorded in General Fund cash in the general ledger

The City received an ARPA deposit of $2,105,725 on July 27, 2021 in its Fifth-Third account #9459. This deposit was not recorded in the general ledger at the time the deposit was made. The City received an ARPA deposit of $2,173,037 on June 24, 2022 in the same Fifth-Third account. This deposit was also not recorded in the general ledger at the time the deposit was made. The appropriate entries would have been to debit (increase) General Fund cash and credit (increase) deferred revenue. As the funds were used or allocated to an eligible use, the deferred revenue would be reclassified to revenue (i.e., debit deferred revenue, credit revenue) in the current period.

On September 28, 2021 (after the first payment was received), an entry was made to allocate $1,235,867 of the ARPA funds to "ARPA 2020 Revenue Loss." The entry debited General Fund cash and credited grants revenue, effectively recording $1,235,867 of the cash received. A portion of the entry was reversed on May 18, 2022 bringing the cash received and revenue recognized in the general ledger to $1,000,000. After the second deposit was received on June 24, 2022, a total of $3,278,762 ($2,105,724 + $2,173,037 - $1,000,000) of the ARPA cash received had not been recorded in the general ledger.

The conversion from eGov to Springbrook occurred during fiscal year 2023. The conversion was started by recording June 30, 2022 balances (fiscal year 2023 opening balances) in Springbrook from eGov. The City continued using eGov throughout most of fiscal year 2023. In May or June 2023, it appears the year-to-date balances in eGov were transferred to Springbrook through an adjustment to the June 30, 2022 balances previously entered into Springbrook.

We reviewed the June 30, 2022 opening balances in Springbrook and noted that deferred revenue of $3,278,762 was recorded, which was never recorded in eGov. The fiscal year 2022 trial balance in the audit files shows adjusting entries to the balances that were brought into Springbrook. The following entry was made to record deferred revenue from the ARPA funds:

Account #	Account Name	Debit Amt	Credit Amt
10-10-1101	General Fund Cash	$2,261,418	
10-11-5996	Payroll & N/P 2% Coll Fee	17,344	
10-11-5999	Miscellaneous Expense	1,000,000	
10-10-2231	Deferred Revenue		$3,278,762

This entry recorded the remaining deferred revenue from the ARPA funds ($4,278,762 received minus $1,000,000 utilized for 2020 revenue loss). However, instead of recording the full balance of the associated remaining unrecorded cash received, $1,017,344 was recorded to miscellaneous expense and a payroll expense. The $1,000,000 miscellaneous expense entry was subsequently allocated to grants and subsidies expense accounts and other miscellaneous expenses accounts across other departments.

On August 30, 2022, an entry was recorded in eGov to recognize an additional $298,150 of revenue from the ARPA funds for "FY22 Premium Pay." A debit (increase) was recorded to cash for $298,150 and a credit (increase) was recorded to grants revenue for the same amount. If the ARPA funds had been appropriately recorded in General Fund cash and deferred revenue at the time of receipt, the appropriate entry would have been a reclassification of $298,150 from deferred revenue to revenue. However, deferred revenue from the ARPA funds was never recorded in eGov. It first appears on City's general ledger when the June 30, 2022 opening balances were recorded in Springbrook.

Of the FY2022 ARPA deposits totaling $4,278,762, we have identified a total of $3,559,568 that was recorded in the City's General Fund cash account:

Date	Accounting System	Description	Cash Impact
9/28/2021	eGov	ARPA 2020 Revenue Loss	$ 1,235,867
5/18/2022	eGov	Correct ARPA 2020 Revenue Loss	(235,867)
6/30/2022	Springbrook	Opening balance Springbrook	2,261,418
8/30/2022	eGov	FY22 Premium Pay	298,150
			$ 3,559,568

We have found no evidence that the remaining $719,194 ($4,278,762 - $3,559,568) portion of the ARPA cash deposits were recorded in the General Fund cash balance. The unrecorded portion of the deposits results in a $719,194 understatement of cash in the general ledger (i.e., the cash balance in the general ledger is $719,194 less than the cash balance in the bank).

D. No unauthorized payments to acting City Administrative Officers or the Director of Finance found during the Scope Period

We conducted targeted testing of the acting City Administrative Officers and the Director of Finance during the Scope Period to determine if they received any unauthorized payments of City funds. Ron Dill was the acting City Administrative Officer on July 1, 2020, the beginning of our Scope Period. Mr. Dill was replaced by Mr. Kremer in May 2022. Mr. Ewald served as the Director of Finance throughout the Scope Period.

We conducted background research on these three individuals to identify related entities (i.e., businesses they own or serve as officer/director). We searched the three primary bank accounts included in the General Fund – 1) General, 2) Accounts Payable and 3) Payroll – for any payments to these individuals or their related entities during the four-year Scope Period. Additionally, we selected multiple sample pay periods during each year of the Scope Period and confirmed that the salary received by each individual was consistent with the ordinance that set their approved salary for that period. **No unauthorized payments to these individuals or their related entities were found during the Scope Period.**

E. Missed or mis-recorded transactions totaling $585,256 during the Scope Period that contributed to the $713,397 unreconciled discrepancy

Our review of factors impacting the unreconciled discrepancy uncovered four types of missed or mis-recorded transactions resulting in a $585,256 overstatement of cash during the Scope Period.

Over(Under) Statements of Cash in GL From:	FY2021	FY2022	FY2023	FY2024	Total
Transfers to employee health insurance fund	$ (39,893)	$ 440,068	$(129,157)	$ (16,045)	$ 254,973
Deferred compensation 3% match	36,407	38,493	41,127	42,994	159,021
Flexible spending account match	(5,337)	-	37,300	83,240	115,203
Payroll processing fees	18,191	17,369	19,891	608	56,059
Cash Over(Under) Statement in GL	$ 9,368	$ 495,930	$ (30,840)	$ 110,798	$ 585,256

Each of the four types of missed or mis-recorded payments impacting the discrepancy are recuring transactions that extend back to the beginning of the scope period in July 2020. This indicates the overstatement would likely increase if the Scope Period was expanded to prior periods.

1. Transfers to the employee health insurance fund not recorded or recorded incorrectly

During this period, the City was self-insured for employee health and dental coverage. Monthly withholdings from employee paychecks for health and dental insurance premiums were supposed to be transferred to the employee health insurance fund account x9095. Additionally, a semi-annual payment was made by the City to the employee health insurance fund based on claims to date and projected claims over the next 6 months.

We reviewed the transfers from the General Fund account x8915 to the employee medical insurance fund account x9095 during the period and compared those amounts to the medical insurance expense (5425) recorded in the general ledger during the same period. In our review of the bank activity for the general fund account x8915, we noted that only semi-annual payments were made until August 2023. In August 2023, transfers of $5,000 to $10,000 were made monthly.

The amounts withheld from employee paychecks for their portion of the medical insurance premium was incorporated into the gross payroll entries discussed above, meaning there was a reduction of cash for these amounts. Therefore, to determine the true overstatement of cash related to medical insurance expense, an adjustment must be made to account for these employee withholdings included in the gross payroll entries. From July 2020 to June 2024, the transfers from the General Fund to the employee medical insurance fund exceeded the medical insurance expense amounts recorded in the general ledger resulting in an overstatement of General Fund cash totaling $254,973.

	FY2021	FY2022	FY2023	FY2024	Total
Bank Transfers to Medical Insurance Fund	$1,358,322	$1,519,502	$1,671,520	$1,465,877	$6,015,222
Medical Insurance Expense (5425)	1,313,453	993,587	1,712,179	1,391,493	5,410,712
Adjustment for Employee Withholdings	(84,763)	(85,846)	(88,498)	(90,429)	(349,536)
Cash Over(Under) Statement in GL	$ (39,893)	$ 440,068	$ (129,157)	$ (16,045)	$ 254,973

This overstatement of cash in the General Fund is offset by an understatement of cash for the same amount in the employee health insurance fund.

2. Employer 3% match of employee deferred compensation contributions not recorded

The City offered a 3% match of employee deferred compensation contributions during this period. The employee contributions were deducted from their paycheck and paid by the City from the payroll account. These payments were part of the gross payroll entry process described above. The 3% match by the City was paid from the General Fund account x8915 from July 2020 until March 2024 when the City began making the payments from the General Fund Payroll account x9038. The payments were made to Nationwide, the deferred compensation plan administrator.

We reviewed the deferred compensation 3% match payments during the period and compared those amounts to the other employee benefit expense (5465) recorded in the general ledger during the same period. Our review of the other employee benefit expense activity showed that none of the deferred compensation 3% match payments were recorded in the general ledger. From July 2020 to June 2024, the City failed to record deferred compensation 3% match payments totaling $159,021 resulting in an overstatement of cash in the General Fund for that amount.

	FY2021	FY2022	FY2023	FY2024	Total
Deferred Compensation 3% Match Pmts	$36,407	$38,493	$41,127	$ 42,994	$159,021
3% Match Payments Recorded in GL (5465)	-	-	-	-	-
Cash Over(Under) Statement in GL	$36,407	$38,493	$41,127	$ 42,994	$159,021

3. Employer match of employee FSA contributions not recorded

During the Scope Period, the City offered flexible spending accounts (FSA) to its employees, which could be used for out-of-pocket medical expenses. The employees could make tax-free contributions to the account, and the City partially matched the contributions up to $600 annually. The FSA match by the City was paid from the General Fund account x8915 to the FSA fund account x9152.

We reviewed the FSA matching payments during the period and compared those amounts to the City's internal records showing the amount of FSA match payments due. This shows the FSA fund was underfunded by $25,165 during the Scope Period.

	FY2021	FY2022	FY2023	FY2024	Total
Flexible Spending Account Match Pmts	$ (5,337)	$ -	$37,300	$ 83,240	$ 115,203
FSA Match Obligations	26,678	39,990	37,300	36,400	140,368
Over(Under) Funding of FSA Fund	$(32,015)	$(39,990)	$ -	$ 46,840	$ (25,165)

Next, we compared the FSA match payments made to the Other Employee Benefit expense (5465) recorded in the general ledger during the same period. Our review of the Other Employee Benefit expense activity showed that none of the FSA match payments were recorded in the general ledger. From July 2020 to June 2024, the City failed to record FSA match payments totaling $115,203 resulting in an overstatement of cash in the General Fund for that amount.

	FY2021	FY2022	FY2023	FY2024	Total
Flexible Spending Account Match Pmts	$ (5,337)	$ -	$37,300	$ 83,240	$115,203
FSA Match Payments Recorded in GL (5465)	-	-	-	-	-
Cash Over(Under) Statement in GL	$ (5,337)	$ -	$37,300	$ 83,240	$115,203

4. Payroll processing fees not recorded

The City utilized ADP and Paycor to process payroll during this period. The payroll fees were paid from the General Fund Payroll account x9038. We reviewed the payroll fees paid during the period and compared those amounts to the Professional Services expense (5905) recorded in the general ledger during the same period. Our review of the Professional Services expense activity showed that only a portion of the FY2024 payroll processing fees were recorded in the general ledger. From July 2020 to June 2024, the City failed to record payroll processing fees totaling $56,059 resulting in an overstatement of cash in the General Fund for that amount.

	FY2021	FY2022	FY2023	FY2024	Total
Payroll Processing Fees Paid	$18,191	$17,369	$19,891	$ 20,362	$ 75,813
Payroll Processing Fees Recorded in GL (5905)	-	-	-	19,754	19,754
Cash Over(Under) Statement in GL	$18,191	$17,369	$19,891	$ 608	$ 56,059

V. Recommendations

Based on our analysis and findings, we make the following internal control recommendations:

1. **Maintain separate general ledger accounts for each bank, investment and CD account.** We understand that the City has already created separate general ledger accounts for each financial account.

2. **Establish a monthly close process, including reconciliation of balance sheet accounts.** Set a monthly closing deadline and require preparer sign-off, independent

review, and documented follow-up for unresolved items. We understand that the City has begun reconciling all financial accounts monthly.

3. **Record payroll completely and on time.** Each payroll should be posted on a timely basis, including employee withholdings, employer contributions, transfers, and net cash to the employees. We understand that withholding liability accounts have been set up and the payroll journal entry template was revised to properly account for each payroll.

4. **Strengthen journal entry oversight.** Require transaction-level support and approval for correcting or catch-up entries.

****

Our work was performed in compliance with the Statement on Standards for Forensic Services No. 1. If additional information relevant to this matter becomes available later, our analysis and conclusions may need to be supplemented to take additional information into account.

Sincerely,

DEAN DORTON ALLEN FORD, PLLC

By: _____

DRAFT

Exhibit 1 - Delays in Recording Payroll

Payroll Date	Recording Date	Difference in Dates
7/10/2020	8/26/2020	47
7/24/2020	8/26/2020	33
8/7/2020	8/26/2020	19
8/21/2020	8/26/2020	5
9/4/2020	1/12/2021	130
9/18/2020	1/12/2021	116
10/2/2020	1/12/2021	102
10/16/2020	1/12/2021	88
10/30/2020	1/12/2021	74
11/13/2020	1/13/2021	61
11/27/2020	1/13/2021	47
12/11/2020	1/13/2021	33
12/25/2020	1/13/2021	19
1/8/2021	4/15/2021	97
1/22/2021	4/15/2021	83
2/5/2021	4/15/2021	69
2/19/2021	4/15/2021	55
3/5/2021	4/15/2021	41
3/19/2021	4/15/2021	27
4/2/2021	6/1/2021	60
4/16/2021	6/1/2021	46
4/30/2021	6/1/2021	32
5/14/2021	6/29/2021	46
5/28/2021	6/29/2021	32
6/11/2021	6/29/2021	18
6/25/2021	6/30/2021	5
7/9/2021	10/29/2021	112
7/23/2021	11/1/2021	101
8/6/2021	3/15/2022	221
8/20/2021	3/15/2022	207
9/3/2021	3/14/2022	192
9/17/2021	3/15/2022	179
10/1/2021	3/15/2022	165
10/15/2021	3/15/2022	151
10/29/2021	3/15/2022	137
11/12/2021	3/15/2022	123
11/26/2021	3/15/2022	109
12/10/2021	3/15/2022	95
12/24/2021	3/15/2022	81
1/7/2022	3/17/2022	69
1/21/2022	3/17/2022	55
2/4/2022	3/17/2022	41
2/18/2022	5/5/2022	76
3/4/2022	5/5/2022	62
3/18/2022	5/5/2022	48
4/1/2022	7/25/2022	115

Exhibit 1 - Delays in Recording Payroll

Payroll Date	Recording Date	Difference in Dates
4/15/2022	7/25/2022	101
4/29/2022	7/25/2022	87
5/13/2022	7/25/2022	73
5/27/2022	7/25/2022	59
6/10/2022	7/25/2022	45
6/24/2022	7/25/2022	31
7/8/2022	7/27/2022	19
7/22/2022	7/27/2022	5
8/5/2022	8/8/2022	3
8/19/2022	8/22/2022	3
9/2/2022	8/31/2022	-2
9/16/2022	2/26/2023	163
9/30/2022	2/27/2023	150
10/14/2022	2/28/2023	137
10/28/2022	3/1/2023	124
11/11/2022	3/2/2023	111
11/25/2022	3/3/2023	98
12/9/2022	3/4/2023	85
12/23/2022	3/5/2023	72
1/6/2023	6/30/2023	175
1/20/2023	6/30/2023	161
2/3/2023	6/30/2023	147
2/17/2023	6/30/2023	133
3/3/2023	6/30/2023	119
3/17/2023	6/30/2023	105
3/31/2023	6/30/2023	91
4/14/2023	6/30/2023	77
4/28/2023	6/30/2023	63
5/12/2023	6/30/2023	49
5/26/2023	6/30/2023	35
6/9/2023	6/30/2023	21
6/23/2023	6/30/2023	7
7/7/2023	7/31/2023	24
7/21/2023	7/31/2023	10
8/4/2023	1/30/2024	179
8/18/2023	1/30/2024	165
9/1/2023	1/30/2024	151
9/15/2023	1/30/2024	137
9/29/2023	1/30/2024	123
10/13/2023	1/30/2024	109
10/27/2023	2/22/2024	118
11/10/2023	2/22/2024	104
11/24/2023	2/22/2024	90
12/8/2023	2/23/2024	77
12/22/2023	2/27/2024	67
1/5/2024	2/27/2024	53

Exhibit 1 - Delays in Recording Payroll

Payroll Date	Recording Date	Difference in Dates
1/19/2024	2/27/2024	39
2/2/2024	2/29/2024	27
2/16/2024	2/29/2024	13
3/1/2024	4/15/2024	45
3/15/2024	4/15/2024	31
3/29/2024	4/15/2024	17
4/12/2024	4/15/2024	3
4/26/2024	6/30/2024	65
5/10/2024	6/30/2024	51
5/24/2024	6/30/2024	37
6/7/2024	6/30/2024	23
6/21/2024	6/30/2024	9
	Average:	77