

Media, Pennsylvania  
610.565.5222

202 Bancroft Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940

FAX: 302.478.0133  
www.btcpa.com  
info@btcpa.com

December 11, 2008

Members of City Council  
City of Salisbury  
Salisbury, Maryland

In planning and performing our audit of the financial statements of the City of Salisbury for the year ended June 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 11, 2008 on the financial statements of the City of Salisbury.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the City Council, management and others within the administration, and is not intended to be and should not be used by anyone other than these specified parties.

*Barbacane Thornton & Company*  
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& COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

## STATUS OF PRIOR YEAR RECOMMENDATIONS

### RECONCILIATIONS AND REVIEW OF GENERAL LEDGER ACCOUNTS

During the prior year audit, the prior year auditor noted that various accounts were not reconciled to the general ledger.

The prior year auditor recommended that monthly or quarterly reviews be performed and accounts adjusted to provide better financial information for the City's management. In cases where the City uses third parties to calculate, collect and remit funds back to the City, the finance staff should ensure that the funds received are proper and accurate.

#### Status

During our current year audit, we noted that all accounts were reconciled to the general ledger before the audit began. This recommendation is no longer applicable.

### OVERDRAFT CASH BALANCES (AMOUNTS DUE TO OTHER FUNDS)

The City is utilizing the pooled cash account as a method to support funds that do not have adequate cash flows to cover their expenditures. This has resulted in several funds carrying large credit or overdraft balances, as well as resulting in fund deficits in certain funds.

The prior year auditor recommended that the City consider analyzing these credit or overdraft cash balance funds, create a corrective action plan, and consider approving transfers when necessary and as needed.

#### Status

During our current year audit, we noted that there are several funds that still had large credit balances as of June 30, 2008 and transfers were made to alleviate the situation. This recommendation is still applicable for the current year.

#### Management Response

Management will continue to review the pooled cash accounts and make a recommendation to City Council during the FY 2010 budget process regarding the ongoing corrective action plan, which may include transfers between funds. If transfers are made, the General Fund cash and undesignated fund balance would be decreased. Due to the size of the General Fund undesignated fund balance, the impact would be limited.

### GAAP RECORDING OF EXPENDITURES

During the prior year audit, the prior year auditor noted multiple instances where all and/or portions of certain expenditures were recorded in a particular fund and/or period with a management explanation that there were no budgeted funds available in the original fund or period. Expenditures should be recorded in accordance with generally accepted accounting principles (GAAP) and budget balances modified as appropriate.

The prior year auditor recommended that the City record all activities in accordance with GAAP and request budget modifications as necessary.

Status

During our current year audit, we noted one instance where expenditures were recorded in the General Fund for a Public Works expenditure that was not budgeted. This recommendation is still applicable for the current year.

Management Response

The unbudgeted amount in Public Works related to the purchase of a street sweeper for the department. The street sweeper was budgeted as a lease purchase in the sanitation department during FY 2008. In the General Fund, the City historically has budgeted only the lease expense when purchasing a piece of equipment. Accounting requires that the actual cost of the equipment be recorded as well. As such, the City has a negative variance in capital outlay but a positive variance in debt proceeds for the street sweeper (and any other lease purchase item). Additionally, when the City receives donations, it historically has not amended the budget for the revenue and expense increased related to these donations. Management will discuss the treatment of these items with the City Council.

ADDITIONAL ACCOUNTING RESOURCES AND TRAINING

Based on several of the recommendations noted above, the anticipated increase in effort with the risk-based audit approach required documentation, and the additional duties placed on the Director of Internal Services and her staff (including budget preparation), we believe the finance department requires significant resources and training.

The prior year auditor recommended that the City consider hiring additional accounting personnel to assist in the daily accounting and reconciliation process. It was further recommended that the City consider adequate training for all finance staff on the requirements of the new risk-based audit approach as well as GAAP and, more specifically, governmental accounting standards and procedures.

Status

During our current year audit, we noted that the City hired a third-party consultant to prepare the items needed for the audit prior to the start of the audit fieldwork. We further noted that the City hired the GFOA to perform an efficiency study to analyze the finance department. The City is evaluating the efficiency study's results and implementing changes in the workforce and/or workforce tasks as needed. It is the Council and management's responsibility to make decisions with regard to hiring additional accounting personnel.

CURRENT YEAR RECOMMENDATIONS

VALUATION POLICY OF ZOO ANIMALS

During our current year audit, we noted that zoo animals are recorded as inventory on the City's balance sheet. According to the Governmental Accounting Standards Board, zoo animals are considered capital assets and should be depreciated over the animal's useful life.

We recommend that the City evaluate the current value of the zoo animals, consider their useful lives, and adjust the balance sheet to reflect the zoo animals as a capital asset instead of an inventory item.

Management Response

Prior to the close of FY 2009, management will complete an evaluation of the zoo animals and classify them as capital assets in the FY 2009 financial statements.

CITY MARINA FUND

During our current year audit, we noted that the balance sheet includes amounts such as accounts receivable that are the same as the prior year. The City uses a management company to administer all activity of the City Marina. The City, however, does not monitor the balance sheet activity closely and receivables may be overstated.

We recommend that the City monitor the balance sheet activity of the City Marina fund on a monthly basis or as needed and investigate any discrepancies.

Management Response

During FY 2009, management will review the balance sheet of the Marina Fund and ensure that the balances are monitored and any necessary adjustments are made.