

Unit Name: City of Little Falls

Audit Report Title: City of Little Falls Financial Condition

Audit Report Number: 2021M-54

The City of Little Falls has reviewed each recommendation included in the audit report. The following is the City of Little Falls Corrective Action Plan. Any recommendation(s) where corrective action has not been already taken or proposed, we have included a detailed explanation.

For ease of format, we have included the multiple recommendations under the appropriate heading of the three main recommendations.

Recommendation No. 1: Adopt structurally balanced budgets and closely monitor City Finances

The OSC provided several recommendations that fall under this heading, which are discussed below.

1. Amend the Charter

One of the initial comments is that the City budget is not adopted until April of each year, despite the fiscal year running from January to December. Specifically, the OSC stated in its report that the City should consider amending the Charter to require adopting the budget prior to the beginning of the fiscal year and collecting real property taxes to coincide with the start of the fiscal year. Amending the Charter is not a simple task. It must be done by local law and may require a referendum. There is significant detail and structure in the Charter relating to the budget. Amending the Charter is not a task to be taken lightly, by the Common Council or the citizens of Little Falls. At this time, given that there are more immediate issues relating to the City's fiscal status, the Council will continue to take this under advisement, however is choosing to focus on the more pressing and immediate concerns and issues relating to the City's budget.

2. Adopt structurally balanced budgets that include realistic estimates and fund recurring expenditures with recurring revenues.

In an effort to address this recommendation, the City of Little Falls Common Council intends to require monthly reports from all department heads in addition to the monthly review of the general fund currently received each month. The Finance Committee, Treasurer and Common Council shall review said reports in detail and schedule meetings with the department heads as appropriate. In addition as a part of the Fund Balance Management plan, which the establishment of is in progress, the Common Council intends to implement a policy requiring each department head to provide a complete vehicle and equipment list with a staggered plan for replacement. This will aid the City in making a more realistic budget each year.

3. Review of periodic financial reports that include cash activity and reconciled cash balances, balance sheet accounts, and budget-to-actual comparisons for revenues and expenditures; Closely monitor the City's finances, including available fund balance and cash balances, to prevent further decline in the City's financial condition

Along with the plans the City intends to implement discussed above, the City is in the process of purchasing new, more up to date and user friendly software. At the time of the audit, the City of Little Falls was using two separate accounting softwares. The new software will allow for more accurate and up to date financial reports, reconciled cash balances, and budget to actual comparisons for revenues and expenditures. With the new system, cash receipts and utility billing and payments will automatically be entered and update the finance/general ledger. This will save time and eliminate any data entry error. Everything billed and received will go through Finance which will make reporting, balancing and tracking more efficient and accurate.

While the Mayor and Treasurer regularly meet to discuss budget revenue and expenditures, with the new software, the City expects to have a more accurate financial picture. The Finance Committee and Mayor will review these financial reports on quarterly basis, or more often when necessary. Both the software and quarterly meeting will allow the City to monitor the budget throughout the year and ensure timely budget modifications are made when necessary and do not allow appropriation accounts to be overspent. This will also allow the council to adopt structurally balanced budgets that include realistic estimates and fund recurring expenditures with recurring revenues.

4. Establish a plan to eliminate the golf fund balance deficit and ensure that fund is self-sustaining

The city's golf committee has met several times since the audit to address the golf fund balance deficit. The steps they have taken to increase their revenues include raising memberships (last increase was in 2014), charging the different leagues a fee to use the facilities as well as other revenue generating streams. The long term equipment plan described above will also be put in place at the golf course. This will ensure major expenses can be planned for and the equipment is replaced per the long range schedule. A member of the common council is on the golf committee and will provide a written update each month showing the real time financial status of the golf course. A review of the golf course financials shows it to be operating in the positive this year. Adopting the above mentioned steps will ensure the golf fund is self-sustaining for years to come.

5. Ensure bond proceeds are only used for their intended purposes

It is clear that the Common Council must hold the Treasurer's Office more accountable. A separate accounting of bond expenditures will be included in the monthly reports to the Common Council to ensure that the bond funds are being administered correctly.

Recommendation No. 2: Correct accounting errors and ensure financial reports are accurate

Since the time of the audit, there has been a new Acting Treasurer who has worked tirelessly with the office staff to identify any and all accounting errors and inaccuracies. Significant progress has been made with respect to this. In addition, as discussed above, the City of Little Falls is purchasing new accounting software that should create uniform accounting and eliminate the opportunity for errors. This has not been an easy task. In January, a new duly elected Treasurer will take office. The City intends to make every effort to provide the new Treasurer with training opportunities in order to make ensure that any opportunities for error are minimized, if not eliminated. These steps are expected to result in accurate City annual financial reports, timely and accurate monthly bank reconciliations and the ability to promptly investigate and correct any differences.

Recommendation No. 3: Adopt a fund balance policy, multiyear financial plan and capital plan

The Council will begin working on and establishing a fund balance policy, multiyear financial plan and capital plan. Again, the City will include in such plans a vehicle and equipment assessment and replacement schedule. It is expected that this will be a big part of the policy.