



FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 25, 2013

The Honorable Mayor and
Members of City Commission
City of Margate
Margate, N.J. 08204

Dear Mayor and Commissioners:

We have audited the financial statements of the City of Margate (the "City") for the fiscal year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Margate are described in notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City of Margate's financial statements was:

Management's estimate of the Compensated Absences liability is based on the termination payment method, whereby the liability is calculated based on the amount of vacation time which the employee has earned, sick leave and any compensatory time which was earned and is eligible for payment upon termination of any employee. The City estimates its accrued compensated absences liability based on the accumulated sick, vacation days, and compensatory time at the balance sheet date by those employees who are currently eligible to receive termination payments. The estimated value of compensated absences as of December 31, 2012 is \$2,137,210.07.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 25, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the Mayor and City Commissioners and management of the City of Margate and is not intended to be and should not be used by anyone other than these specified parties.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We would also like to present, to the Mayor and City Commissioners, the following comments and recommendations regarding the operations of the City. Our comments are not to be taken as criticisms of any particular individual(s), but to disclose matters that we believe could adversely affect the operations of the City, if not given specific attention.

Our comments and recommendations are as follows, but not necessarily listed in terms of importance:

1. **Beach Tag Operations**

The City changed the personnel responsible for the Beach Tag Program in 2012. Beach Tag Revenue increased to \$325,673.50, approximately a \$31,000 increase as compared the 2011 amount of \$294,723.50. During 2012, 44,051 Beach Tags were sold and all but 20 were accounted for. In 2011 39,756 Beach Tags were reported as being sold, but 3,423 could not be accounted for. The operations of the Beach Tag Program have improved significantly.

2. **Tax Collector**

One property subject to Tax Sale was not included in the 2012 Tax Sale of 2011 Delinquent Taxes. We recommend that all eligible Delinquent Taxes be included in the annual Tax Sale as required by the statutes.

3. **Petty Cash/Change Funds**

When performing the cash counts for the City's change and petty cash funds, we were informed that on two occasions during the audit year 2012 there were cash shortages in the amount of \$47 and \$30 respectively. The City turned the matter over to the County Prosecutor and we have been informed that the Prosecutor investigated the matter, and has decided not to pursue it.

4. **Payment of Claims**

The City was unable to provide us with a vendor invoice for an expenditure to Design Landscaping in the amount of \$5,037.10, dated December 7, 2012, paid with check # 67902. Although this seems to be an isolated incident, all original vendor invoices should be available for audit as part of the Voucher Payment Package.

The City awarded a Bid to Asphalt Paving Systems Inc. for reconstruction of Amherst Avenue. The Bid file did not contain the following required documents:

Contractors Bond Certificate
Stockholder Disclosure Form
NJ Business Registration Form

We were informed that the City does believe that the documents were obtained prior to award, but there is a difficulty in locating them due to the fact that City Offices have been displaced from City Hall due to Hurricane Sandy.

5. **Capital Ordinance 2012-4**

In a Special Election held November 6, 2013 through Voter Referendum, the voters of the City of Margate repealed Bond Ordinance 2012-04, which authorized \$600,000 for a new Construction Code Office. Preliminary expenses related to this Ordinance had already been incurred by the City as follows:

\$500.00 in Legal Expenses payable to the Bond Counsel, Fleishman Daniels Law Office related to the Legal Services involved in drafting the Ordinance. The City paid this invoice on April 9, 2012 with check number 60492. The amount was charged to Ordinance 2012-04, however due to the fact that the Petition and Referendum invalidates the Ordinance, an Audit Adjustment was made to reclassify the expense to the 2012 Current Fund Legal Services Budget Appropriation.

\$13,528.00 in Architectural Design Fees and Expenses payable to CB Architect, LLC related to the Design and Document Phase of the project, incurred prior to the City Stop Work Order on March 29, 2012.

We were able to determine that the City awarded to CB Architect LLC, an Extraordinary Unspecifiable Services (“EUS”) Contract in the amount of 4,000.00 on January 19, 2012. We have proof of the award being advertised in the Press of Atlantic City issue of January 25, 2012.

We were also able to determine that the City awarded to CB Architect LLC, a Professional Services Contract in the amount of 24,400.00 on March 15, 2012. We have proof of that award being advertised in the Press of Atlantic City on March 30, 2012.

The authorized expenditures related to these two contracts total \$28,400.00. The following payments related to these two contracts were made by the City as follows:

<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Account Charged</u>	
			<u>Number</u>	<u>Name</u>
66399	3/16/2012	\$ 4,000.00	2-01-30-426-201	Feasibility Studies
66661	5/4/2012	1,820.00	2-01-26-290-202	Street Repairs
66759	5/15/2012	7,708.00	2-01-30-426-201	Feasibility Studies
		<u>\$ 13,528.00</u>		

We examined the invoices submitted and it is reasonable to expect preliminary expenses to be incurred. The expenditures incurred are less than the total amount authorized by the City. Apparently it was originally expected that these expenditures would be charged against the Capital Ordinance, however the accounts that were ultimately charged had sufficient appropriation balance and are also appropriate Budget Line Items to receive charges for these types of expenditures.

6. Lifeguard Pension

The City maintains a Trust Fund Reserve for Lifeguard Pensions in the amount of \$90,097.45 as of December 31, 2012. The following table illustrates the activity in this fund over the last 3 years.

	<u>Interest Earned</u>	<u>Employee Contributions</u>	<u>Pension Payments</u>	<u>Balance 12/31</u>
2012	\$ 297.49	\$ 20,395.07	\$ (24,972.84)	\$ 90,097.45
2011	1,203.07	20,004.35	(25,059.44)	94,377.73
2010	1,212.65	19,903.08	(24,972.84)	98,229.75

Interest and Employee Contributions are currently less than the required annual Pension Payments. The City should consider engaging an Actuary to analyze the Lifeguard Pension Plan to determine the amount the City should begin funding in its annual budget to support this fund.

As stated earlier, our comments are not to be taken as criticisms of any particular individual(s) or department(s). We would like to extend our thanks to all the staff in the City of Margate for their full cooperation and amicable assistance. We would be pleased to discuss this letter at any time, and look forward to providing assistance with implementing our recommendations.

Respectfully submitted,

**FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS**

Leon P. Costello

**Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393**