MASC Small Cities Summit

August 12, 2026

Budgeting and Audits

Anne Harty, CPA, CGFO

aharty@firsttryon.com

Strengthening Financial Oversight & Effective Accounting Review

- Financial Controls & Fund Accounting, Legal Requirements, and Internal Controls
- Reports to City Council
- Identifying & Responding to Irregularities
- Forensic Audits: When They Are Necessary

1

Financial Controls & Reporting Foundation

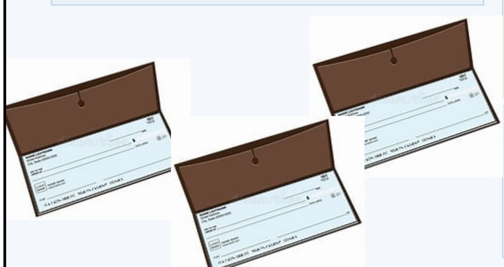
Fund accounting, financial statements, and cash flow management

Fund Accounting

What Is Fund Accounting?

An accounting system emphasizing accountability rather than profitability, used by state and local governments.

Governments show how money is spent, not how much profit was earned.



Keys to Effective Financial Reporting

Good account structure
Effective internal controls
Computerized accounting system

Regular Reporting to Council

Present monthly financial reports comparing actual to budget and current to prior year.

Council's Responsibility

Council is ultimately responsible for ensuring monthly reports are prepared and the information is accurate.

Three Categories of Funds

Governmental Funds

Account for typical governmental functions:

• General
• Special Revenue
• Capital Projects
• Debt Service
• Permanent

Functions: Public safety, streets, parks, admin

Proprietary Funds

Business-type activities — self-supporting through user charges:

• Enterprise Funds
• Internal Service Funds

Examples: Water, sewer, electric utilities

Fiduciary Funds

Assets held in trust for individuals or other entities:

Examples:
• SC Retirement System
• Pension funds
• Employee benefit trusts

Not available for city spending

Special Funds Common to SC Cities

Utility Fund (Water & Sewer)
Enterprise/Proprietary fund. Self-supporting through user charges. Must be tracked separately.

Hospitality Tax (H-TAX)
2% local tax on prepared food/beverages. SC Code §6-1-720. Restricted uses: tourism promotion, recreation, cultural activities.

Accommodations Tax (A-TAX)
State-shared accommodations tax. SC Code §6-1-530. Restricted to tourism-related expenditures.

Victims Advocate Fund
Court-collected fees held separately. Must maintain separate account. SC State Treasurer oversight. Victim services only.

Each special fund has restricted uses — spending outside the fund's purpose violates state law.

Cash Flow Management

1. **Know Your Cash Flow Patterns**
   Be very familiar with your municipality's cash flow patterns.
2. **Understand Legal Authority**
   Know the legal authority for expending, borrowing, and investing public funds.
3. **Evaluate Trends**
   Evaluate past, present, and future cash flow trends to anticipate shortfalls.
4. **Bank Relationships**
   Develop strong relationships with the municipality's banking institutions.
5. **Invest Timely & Wisely**
   Be familiar with investment markets and invest idle cash timely and wisely.
6. **Accurate Accounting System**
   Maintain a good, accurate accounting system.

2 SC Legal Requirements

Audit obligations, thresholds, deadlines, and penalties

SC Independent Audit Requirements

SC Code §5-7-240
Municipalities with total recurring revenue exceeding $500,000 must conduct an annual independent financial audit.

Cash basis is common for smaller entities.

Auditor Selection
Must designate a CPA within 30 days of fiscal year start. Competitive bids not required, but RFP is recommended.

Term Limits & Rotation
Designated for no more than 4-year terms. No limit on number of terms, but rotation is strongly encouraged for a fresh perspective.
Council has final authority on selection.

What Auditors DO
Render an opinion on whether financial statements are presented fairly, in all material respects, in accordance with GAAP. Gather evidence; test, compare, confirm.

What Auditors DON'T Do
Auditors do NOT take responsibility for the financial statements. Financial statement presentation is management's responsibility. Cannot certify fraud-free.

Council Responsibilities
Accept and review the audit annually at a public meeting.

Make audit available for public inspection.

Submit audit to creditors, banks, and any agencies requiring continuing disclosures.

Audit vs. Compilation: Know Your Threshold

Act 71 (2023): Cities with recurring revenue BELOW the threshold may substitute a compilation for a full audit

Revenue Thresholds
FY 2024: $500,000 or less

FY 2025: $514,748 or less (inflation-adjusted annually)

If You Have a Court
Compilation required ANNUALLY.

Must include Uniform Supplemental Schedule and 5 agreed-upon procedures.

If No Court System
Compilation required at least every THREE YEARS.

Full audit still encouraged annually for best practices.

5 Required Agreed-Upon Procedures (for cities with court systems):

1. **Revenue Reconciliation**
   Agree court fine amounts to the general ledger
2. **Schedule Inspection**
   Verify Uniform Schedule contains all required elements
3. **Monthly Remittances**
   Review 6 monthly remittance forms for timely submission
4. **Case-Level Verification**
   Examine 6 docket cases; recalculate fines & fees
5. **Victims Assistance Oversight**
   Confirm separate account maintained; review 6 expenditures

Deadlines, Submission & Penalties

Audit Submission Deadline

Submit to SC State Treasurer within 13 months of fiscal year end (Sec. 6-1-50). Email: annualaudits@sto.sc.gov. No extensions permitted for municipalities.

Local Government Finance Report

Due to SC Revenue & Fiscal Affairs (RFA) by March 15. Submit with a copy of the annual audit.

Additional Distribution

Submit audit to: creditors, local banking institution, and all agencies requiring continuing financial disclosures.

The Audit Equation

Staff must enter data, reconcile bank statements, and prepare financial statements. If staff can't, hire a CPA — but NOT your auditor. Auditor-prepared statements impair independence.

Consequences of Non-Compliance

- Withholding of Local Government Fund (LGF) distributions
- Loss of Local Option Sales Tax allocations
- 10% penalty on LGF share for late Local Government Finance Report to RFA (March 15)
- Public embarrassment — audit delinquents are publicly reported by the State Treasurer
- Over 70 of SC's 271 municipalities have overdue audits — $9.2M+ in withheld state funds

3 Internal Controls

Segregation of duties and fraud prevention

Building Strong Controls

Control Environment

1. Formally approve and widely distribute an ethics policy
2. Establish clear reporting structure and responsibilities
3. Invest in staff training on accounting standards
4. Document policies and procedures formally
5. Set up anonymous reporting mechanism (hotline)
6. Periodically assess whether controls are working

Key Control Activities

Segregation of Duties	Separate: who initiates, approves, records, holds, reconciles
Authorization Limits	Council approval required above set dollar thresholds
Bank Reconciliation	Monthly, by someone independent of check-writing
Physical Controls	Lock check stock; restrict cash and asset access
Documentation	Pre-numbered receipts; support all journal entries
IT Controls	MFA required; review user access rights annually

Segregation of Duties

No single person should control all phases of a financial transaction

Initiate >	Authorize >	Record >	Custody >	Reconcile
Requests or originates a transaction (e.g., purchase order)	Approves and authorizes the transaction (e.g., dept. head approval)	Enters transaction in the accounting system	Has physical control of the asset or funds	Compares recorded amounts to independent records

Compensating Controls When Full Segregation Isn't Possible

- Council reviews and approves bank reconciliations monthly
- Require dual signatures on checks above $2,500 (or council-set limit)
- Mayor or designated council member signs checks above a threshold
- Council reviews budget-to-actual reports and questions variances
- Use positive pay through your bank to verify all checks
- Rotate who reviews which accounts periodically

Preventing Bank & Payment Fraud

GFOA recommends positive pay as the single best fraud prevention tool available

#1 — Positive Pay
Bank compares every check issued vs. received — matching date, number, and amount. Flag mismatches before payment.

ACH — ACH Filters & Blocks
Block all unauthorized ACH debits. Set filters to allow only pre-authorized transactions from known vendors.

2FA — Two-Party Authorization
Require two-party approval (initiation + release) for ALL wire transfers and ACH files.

KEY — Multi-Factor Auth
Require MFA for all online banking. Review user access and signature cards at least annually.

SEG — Segregate Functions
Separate who initiates, approves, and reconciles. Remove terminated employees immediately.

REC — Daily Reconciliation
Require daily review of wire and ACH activity. Monthly bank reconciliation by an independent reviewer.

4 Reports to City Council

What to present, how often, and what council must do with the information

What Council Should Receive & When

MONTHLY	QUARTERLY	ANNUALLY	AS NEEDED
Budget vs. Actual Report (by fund)	Activity Reports	Audited Financial Statements (accepted by council)	Irregularity / Internal Control Report
Cash Position / Cash Flow Summary	Investment Report	Annual Budget Ordinance (after public hearing)	Special Fund Compliance (H-TAX, A-TAX)
Revenue & Expenditure Comparison to Prior Year	Grants Status & Compliance Summary	Management Letter / Auditor Findings	Emergency Expenditure Reports
Bank Reconciliation (on request)	Capital Projects Progress Report	Local Government Finance Report	Grant Audit Reports
General Ledger Transaction Report (on request)	Tax Collection Status Report	Debt Service Report	Court Fines Reconciliation

Example Budget to Actual Reports

City of Rock Hill
General Fund- Monthly Financial Report

General Fund Expenditures	Annual Budget	Current Mo. Expend.	YTD Actual Expend.	Budget $ Remaining	% Budg Remain
Legislative					
Sub 001 Governing Body	346,687	17,276	145,846	200,841	57.9
Sub 005 City Management	845,458	70,395	403,741	441,717	52.3
Sub 020 Housing & Community Developmnt	782,478	69,398	395,139	387,339	49.5
Sub 025 Municipal Court	1,433,536	100,776	631,563	801,973	55.9
Sub 030 Solicitor's Office	774,663	55,479	346,269	428,394	55.3
Office of Government Affairs					
Sub 005 Grants	535,235	37,416	210,589	324,646	60.7
Sub 010 Airport	834,310	53,645	297,719	536,591	64.3
Elections					
Sub 001 General Election	25,000			25,000	100.0
Law/City Attorney					
Sub 001 Law/City Attorney	300,100	157,873	418,308	-118,208	-39.4
Personnel					
Sub 001 Human Resources Administration	964,607	99,169	548,494	416,113	43.1
Sub 005 Personnel Services	718,628	37,794	283,476	435,152	60.6

GOVERNMENTAL FUNDS

July 1 through December 31, 2025

Revenues	FY2026 Annual Budget	July-Dec 2025 Actual	Remaining Budget	% Remaining
Property Taxes	$ 27,678,000	$ 19,678,816	$ 7,999,184	28.9%
Licenses and Permits	17,401,500	2,120,535	15,280,965	87.8%
Fines/Forfeitures	550,000	205,817	344,183	62.6%
Recreation Rental Fees	542,000	127,648	414,352	76.4%
Intergovernmental	3,018,600	899,312	2,119,288	70.2%
Sales and Service Charges	2,515,252	1,333,663	1,181,589	47.0%
Miscellaneous	635,000	46,867	588,133	92.6%
Interfund Transfers	14,213,300	7,105,750	$ 7,107,550	50.0%
Solid Waste Revenues	7,935,400	3,981,320	3,954,080	49.8%
Beach Services Revenues	4,710,000	2,249,145	2,460,855	52.2%
Aquatics & Fitness Center Revenues	3,311,500	844,559	2,466,941	74.5%
Sports & Tourism Park Revenues	2,313,800	1,579,834	733,966	31.7%
	$ 84,824,352	$ 40,173,265	$ 44,651,087	52.6%
Expenditures				
General Government	$ 5,861,844	$ 2,443,203	$ 3,418,641	58.3%
Information Services Department	1,157,613	962,252	195,361	16.9%
Finance	2,073,632	893,449	1,180,183	56.9%
Public Safety	33,941,955	15,224,723	18,717,232	55.1%
Community Services	2,911,156	1,188,099	1,723,057	59.2%
Public Works	5,173,100	2,119,952	3,053,148	59.0%
Parks and Recreation	8,464,362	4,556,473	3,907,889	46.2%
Other Financing Uses	6,965,795	3,272,500	3,693,295	53.0%
Solid Waste Expenditures	7,274,415	3,453,285	3,821,130	52.5%
Beach Services Expenditures	4,321,482	2,416,156	1,905,326	44.1%
Aquatics & Fitness Center Expenditures	3,141,390	1,298,902	1,842,488	58.7%
Sports & Tourism Park Expenditures	3,537,608	1,126,355	2,411,253	68.2%
	$ 84,824,352	$ 38,955,349	$ 45,869,636	54.1%
Governmental Funds	-	1,217,916		

The **General Fund** is on track with expectations.

Two major revenue sources in the General Fund are Property Taxes and Business Licenses, which are not due until mid-January and late April, respectively. Property Tax revenue above includes $12.8 million of property taxes collected by Horry County in December and received by the City in January. Intergovernmental Revenue includes grant reimbursements, which also tend to come late in the fiscal year.

General Fund expenditures through December 2025 were under budget for the first six months of the fiscal year.

Solid Waste revenues are favorable, slightly ahead of budget. Expenditures slightly exceed budget for the first six months, but the overall fund is in good shape.

Beach Services revenues and expenditures are on track with expectations.

Aquatics & Fitness Center revenues are behind budget expectations, but expenditures are also less than budget expectations. Finance will closely monitor this fund in the coming months.

Sports & Tourism Park Fund revenues and expenditures are on track with expectations.

Understanding Your Annual Audit Report

Unmodified (Clean) Opinion
Financial statements present fairly in all material respects. The best outcome.

Qualified Opinion
"Except for" specific issues, statements present fairly. A concern — address findings immediately.

Adverse Opinion
Statements do NOT present fairly. Material misstatements throughout. Serious — take immediate action.

Disclaimer of Opinion
Auditor unable to form an opinion due to scope limitations. Often means inadequate records.

Key Sections of the Audit Report

MD&A
Management's narrative overview — read this section first.

Financial Statements
Gov't-wide + fund statements vs. prior year and budget.

Notes
Policies, debt, pensions, contingencies — critical detail.

Findings
Material weaknesses, deficiencies — act on immediately.

Management Letter
Informal recommendations — still require timely response.

Audit Findings: Understanding Severity

When auditors identify internal control problems, they are classified by severity. All must receive council's attention.

Material Weakness MOST SERIOUS	Significant Deficiency SERIOUS	Control Deficiency REQUIRES ATTENTION
DEFINITION: A deficiency where there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.	**DEFINITION:** A deficiency that is less severe than a material weakness, yet important enough to merit attention by those charged with governance (i.e., the City Council).	**DEFINITION:** A deficiency in the design or operation of a control that does not rise to the level of significant deficiency. May appear in the management letter.
REQUIRED RESPONSE: Immediate action required. Develop corrective action plan. Report progress to council at each meeting. May require additional audit procedures.	**REQUIRED RESPONSE:** Corrective action plan required. Set timeline for remediation. Report to council. Auditor must formally communicate to governance.	**REQUIRED RESPONSE:** Address in normal course of operations. Document the corrective action taken. Track remediation. Don't let minor issues accumulate.

Make Your Audit Available to the Public

Accept Publicly
Council must formally accept and review the audit at a public meeting. It cannot simply be filed away.

Post Online
Post the audit on your city website. GFOA recommends this as a transparency best practice.

Physical Copy
Maintain a physical copy available for public inspection at City Hall during business hours.

Notify Citizens
Announce availability through local newspaper, newsletter, social media, and utility bill inserts.

Issue within six months of fiscal year end — GFOA Popular Reporting Best Practice

5 When Irregularities Are Identified

Red flags, response steps, and who to contact in South Carolina

Red Flags & Warning Signs

1. **Missing or Altered Documents** — Invoices, receipts, or contracts that are missing, altered, duplicate, or from vague vendors (P.O. boxes, no phone number)
2. **Unexplained Account Variances** — Account balances or transactions that cannot be explained or reconciled to source documents
3. **Unsupported Journal Entries** — Manual journal entries with no supporting documentation, made outside normal business hours, or made by senior management
4. **Lifestyle Inconsistencies** — Employee lifestyle inconsistent with known compensation — unusual wealth, expensive items on modest salary
5. **Reluctance to Take Leave** — Employee refuses vacations or cross-training; insists on handling all aspects of a financial function alone
6. **Repeated Audit Findings** — Same internal control finding appears in multiple consecutive annual audits with no meaningful corrective action
7. **Cash Shortages / Overages** — Regular petty cash shortfalls, till discrepancies, or court fine collection amounts that don't match records
8. **Management Override** — Controls are bypassed by management or senior staff; normal approval processes are circumvented
9. **Vendor Anomalies** — Payments to vendors with no W-9, vague descriptions, multiple checks just under approval thresholds
10. **Information Withheld** — Staff is evasive with auditors, council, or finance officers when financial information is requested

8 Steps When Irregularities Are Identified

Do NOT minimize, delay, or handle informally. A timely, structured response protects the city and the public.

1. **Secure Documents and Evidence** — Lock down records, systems, and assets immediately. Prevent deletion or alteration.
2. **Consult City Attorney Immediately** — Get legal counsel before any further action. Attorney-client privilege protects the investigation.
3. **Notify Full City Council** — All council members must be informed — not just the mayor. This is governance's responsibility.
4. **Contact Your External Auditor** — Auditor may need additional procedures and can advise on the scope of the problem.
5. **Consider Independent Investigation** — For significant cases, engage an independent investigator — not city staff.
6. **Report to Appropriate Authorities** — Report to SC OIG, SLED, AG's office, or FBI (if federal funds involved).
7. **Document Everything** — Record all actions taken, decisions made, and communications sent.
8. **Implement Corrective Action** — Close the control gap, address root cause, revise policies, report progress to council.

Who to Contact in South Carolina

Local Authorities – stories from my experience in SC

SC Office of Inspector General
Primary resource for reporting public corruption and financial misconduct
oig.sc.gov

SC State Law Enforcement Div. (SLED)
Criminal investigation of financial crimes by public officials
sled.sc.gov

SC Attorney General's Office
Public corruption, violations of state law by government officials
scag.gov

SC State Treasurer's Office
Audit non-compliance, missing financial reports
treasurer.sc.gov

FBI (Columbia Field Office)
If federal funds are involved in the suspected fraud
fbi.gov/contact-us

6 Forensic Audits

When they are necessary, what they involve, and the alternatives

What Is a Forensic Audit?

A forensic audit is specifically designed to detect and document fraud or misconduct — not to provide financial statement assurance.

Scope
Involves detailed transaction tracing across multiple disciplines, funds, and fiscal years. Examines ALL financial aspects, not just material items.

Methods
Sophisticated diagnostic techniques, in-depth financial analysis, staff interviews, review of emails and documentation, banking records subpoenas.

Outcomes
Pinpoints where fraud occurred, calculates losses across the scheme's full duration, documents evidence for law enforcement and prosecution.

Cost & Time
Typically costs six figures. Can extend over months or even years. Requires a specialist forensic CPA firm — not your annual auditor.

Does NOT Count
A forensic audit does NOT satisfy South Carolina's annual audit requirement. You must still complete your annual financial audit.

Not a Guarantee
Even a forensic audit cannot guarantee all fraud is found. The goal is sufficient evidence for a legal proceeding or corrective action.

When Is a Forensic Audit Necessary?

APPROPRIATE CIRCUMSTANCES	NOT APPROPRIATE FOR
Strong, documented reason to suspect fraud — not rumor or assumption	Routine internal control weaknesses identified in annual audit
Civil or criminal legal proceedings against a public official are underway or imminent	Unsubstantiated rumors or anonymous tips without supporting evidence
An internal investigation has failed or is compromised due to staff involvement	Accounting errors that appear to be mistakes, not intentional misconduct
Significant, unexplained financial discrepancies cannot be resolved through normal audit procedures	General concerns about financial management without specific allegations
Law enforcement has requested a forensic examination of financial records	Situations better addressed through an Agreed-Upon Procedures engagement
External auditors have identified fraud risk indicators too significant to ignore	

Before pursuing a forensic audit, consider an Agreed-Upon Procedures (AUP) engagement — a targeted, cost-effective alternative.

7

Corrective Action & Building Accountability

Closing the gap and strengthening your city for the future

Corrective Action Plans

When a control deficiency is identified — from an audit finding, an investigation, or internal review — a formal corrective action plan is required.

1. **Identify Root Cause**
   Don't just fix the symptom — identify why the control failed. Was it design, implementation, or human override?

2. **Develop Specific Actions**
   Assign specific, measurable corrective steps to named individuals.

3. **Set Realistic Timelines**
   Establish clear deadlines for each corrective action. Short-term (30-90 days) and long-term milestones.

4. **Assign Responsibility**
   Name the person accountable for each action. Shared responsibility often means none.

5. **Implement Follow-Up**
   Establish a formal tracking mechanism. Council should receive status updates at each meeting.

Resources for South Carolina Cities

Government Finance Officers Association	gfoa.org/best-practices	Best practices library covering internal controls, audit committees, whistleblowing, popular reporting, fraud prevention, and more. Free access to all best practice documents. Training available.
Municipal Association of SC (MASC)	masc.sc	'Money Mistakes: Strengthening Municipal Financial Practices' — training, legal guidance, Uptown newsletter, conferences. First call for small city questions.
SC State Treasurer's Office	treasurer.sc.gov	Audit submission requirements, LGIP investment pool, agreed-upon procedures templates, annual audit FAQ. Submit audits to annualaudits@sto.sc.gov.
SC Revenue & Fiscal Affairs Office	rfa.sc.gov	Submit the annual Local Government Finance Report by March 15. Data and research on SC local government finance.
SC Office of Inspector General	oig.sc.gov	Report fraud, waste, and abuse in South Carolina government. Accepts confidential complaints. First call when irregularities involve potential criminal conduct.
SC Comptroller General's Office	cg.sc.gov	Statewide accounting policy and standards for SC governments. Resources on governmental GAAP and financial reporting requirements.

Key Takeaways

1. **Council Is Responsible**
   Financial oversight is not delegated — it is a legal and fiduciary duty of every council member.
2. **Do the Basics Consistently**
   Monthly reports, monthly bank reconciliation, annual audit on time. These prevent most problems.
3. **Red Flags Demand Action**
   Never dismiss a red flag. Prompt, structured response protects the city.
4. **Forensic Audits Are a Last Resort**
   Reserve for strong fraud suspicion or legal proceedings. Agreed-Upon Procedures solve most targeted concerns.
5. **Corrective Action**
   Every audit finding requires a formal response.

QUESTIONS?

MASC Small Cities Summit
Budgeting and Audits

Anne Harty, CPA, CGFO

aharty@firsttryon.com