

MUNICIPAL DEPARTMENT

TO MUNICIPAL OFFICERS.

The **CONTRACT RECORD** is desirous of publishing, as far as possible, advance information regarding projected works of construction in all parts of Canada, such as sewerage and waterworks systems, railways, street pavements, public and private buildings, etc. Municipal officers would confer a favor upon the publisher by placing at our disposal particulars of such undertakings which are likely to be carried out in their vicinity, giving the name of the promoter, character of the work, and probable cost. Any information thus furnished will be greatly appreciated.

MUNICIPAL ACCOUNTS AND AUDITS.*

PRESENT CONDITIONS.

The public attention has been so frequently and so sharply drawn to instances of irregularities on the part of municipal officers, resulting in serious loss to municipalities, that surely some steps must soon be taken by our local government towards finding a remedy.

Some of the irregularities on the part of treasurers which I have myself met with or which have been reported by others are: Neglect to deposit the funds in a bank in compliance with the Municipal Amendment Act of 1893; mixing the public funds with their own private money; using public funds in their private affairs, nominally during such times as they are not required by the municipality, but actually when the municipality is borrowing, and in cases where the funds are thus in use at the end of the year, concealing the deficit from the auditors by entering payments in December which are not actually paid till the next year, but yet in time to produce the vouchers at the time of the audit; or in case of the treasurer having the custody of a second fund such as that of the school board, the surplus of the one is made to cover the shortage of the other, and it seems that the local auditors, if they do test the cash, are not able to grasp the fact that the two balances together must be compared with the cash on hand in the two funds combined.

Then there are misappropriations, not often through duplicate or pretended payments, but usually through failure to account for all or part of the moneys received from some of the various sources, such as proceeds of debentures sold; revenue from waterworks, cemetery lots or interment; rents; fines; non-resident taxes; dog tax; poll tax; interest on deposits or special funds; sometimes sinking funds become a temp-

tation to defalcation, and in cases where the fund has been invested in the municipality's own debentures, such defalcations are very likely to confuse local auditors.

A moderate proportion of losses (frequently indirect) arise out of official shortcomings, such as bad bookkeeping, errors and neglect of duty. For instance, refusal to keep a ledger on the plea that the statutes do not require it, or using a ledger only for the purpose of accumulating the receipts and disbursements of the year, under the proper heads, but totally neglecting such accounts as should be carried forward from year to year, such as accounts with schools, local improvements, drains and sewers, special funds, debentures, special rates, etc., the result being imperfect statements of assets and liabilities, and sometimes loss of balances due to the municipality. Frequently there is but an imperfect record of the particulars of debentures issued.

Other weaknesses in management are: unauthorized or illegal payments, payments made without proper vouchers, omitting to charge payments made, paying by cash instead of by cheque (thus cutting off the means of tracing the cash), errors in calculation, errors of principle in bookkeeping, that is, improper entries, or entries omitted, sometimes resulting in serious loss; imperfect settlements with collectors and neglect of the returns of uncollected taxes.

But the faults are not all those of treasurers. Municipal clerks and collectors of taxes use the funds they collect as long as they dare, or can, before they hand them over; or they account for part only of what they collect, or they default entirely.

Councils themselves neglect to levy the special rates for a sinking fund to meet maturing debenture debts; they misappropriate the sinking funds, or other special funds; or they are guilty of reckless expenditure; they authorize or order illegal or improper payments even "boodling" the money to themselves, and then cook the reports to make the best possible showing.

When shortages or defalcations are discovered, the sureties are often found to be dead men, or men of straw, or men of influence, or in case of a guarantee company the requirements of the bond have been neglected and the municipality at least shares the loss. If the friends of the defaulter or his sureties do what they can to make up the loss little or no punishment is inflicted.

There is an impression abroad, and from what I have learned I am convinced it is true, that less than half our municipalities would bear expert investigation, and that if properly handled, the average result of such an investigation of all the municipalities in the province would much more than pay the cost, and it would give a fair starting point for better management.

Many municipalities have an unsound feeling of security. For instance, I was told of one where the same man has been both clerk and treasurer for twenty-five years. He controls the waterworks

revenue, cemetery receipts, arrears of taxes, and practically the collection of the taxes. He keeps a bank account as a matter of convenience and signs the cheques himself. They have local auditors, but the reports are not printed for circulation. They have unbounded confidence that their affairs are in excellent condition. I thought it was the best "prospect" for a special audit which I had struck.

CAUSES.

Some of the causes which contribute to these conditions are the unbusiness-like appointment of treasurers who have few or none of the qualifications which are necessary to properly assume the duties. The position being looked upon as one of honor, and usually being given as a reward for services rendered, or on account of influence, the remuneration is put at a much lower rate than would be paid for a position of similar responsibility in mercantile life.

Add to this the necessity on the other hand of maintaining a good social standing and the treasurer finds he must divide his time with other business or engage in speculation, and if he is unsuccessful in these, the temptation is forced upon him to make temporary use of the trust funds.

No hand-book or guide to municipal bookkeeping is available to treasurers, by which they can assist themselves over the difficulties, to cope with which they lack the training. There are no regulations requiring a ledger to be kept, or establishing a complete system of accounts adapted to the needs of municipalities.

The provisions of the statutes regarding special rate accounts and sinking funds are frequently neglected and the auditors cannot then report their true condition.

The cash is not all deposited in a bank as is now required by statute, and when it is so deposited, it is not protected by the counter-signature of the head of the council.

Probably the most important cause lies in the inefficiency of the audit.

The auditors do not usually check the bank account, nor do they check the cash down to the date of the audit and see that the balance which ought to be on hand is actually available.

They lack the experience in auditing to properly adjust the bank account as regards cheques outstanding, or amounts received not yet deposited; to detect a shortage in the receipts; to point out errors of principle or illegal or improper payments, or to check the condition of the sinking fund.

They lack the experience and knowledge of bookkeeping which would enable them to instruct or guide the treasurer.

They lack the knowledge of municipal law and management necessary to enable them to take a broad view of the situation, and to suggest reliable improvements.

They are not always independent of the treasurer and the council, and a very important fact in their favor is that they are not sufficiently paid to enable them to do the work properly.

The weakness of the audits deprive an inefficient treasurer of a needed safeguard, and in some cases become a temptation to carelessness and even wrong-doing.

A contributory cause is the common neglect of councils to critically examine the auditor's reports as they are required by statute to do before passing them, and their tendency, when any doubt arises, to shirk the expense and responsibility of an investigation, leaving the trouble to accumulate and grow until it forces itself into attention.

(To be Continued.)

* Paper read before the Chartered Accountants of Ontario, Tuesday, 15th December, 1896, by Arthur C. Neff, C. A., Toronto