

# Schedule of Audit Findings and Responses

## City of Gold Bar Snohomish County November 29, 2011

1. **The City has not effectively monitored or reduced operating costs, resulting in a decline in its financial condition.**

### Description of Condition

Although the City has taken steps to reduce expenses, including a reduced budget for streets, parks and storm water maintenance, its financial condition continues to decline. The City's General fund ending cash balance since 2006 was:

Fiscal Year	General Fund Ending Balance
2006	\$ 303,655
2007	\$ 535,812
2008	\$ 509,063
2009	\$ 351,028
2010	\$ 59,955

As of October 31, 2011, the City's General Fund ending cash balance was \$20,044, which would cover approximately eight days of operating expenditures.

General Fund expenditures exceeded income in each of the prior three years:

	2008	2009	2010
Income	\$651,888.70	\$614,555.99	\$619,143.73
Expenditures	\$678,637.91	\$772,590.94	\$910,222.63
Excess/(Deficit)	\$ (26,749.21)	\$(158,034.95)	\$(291,078.90)

In 2010 the City exceeded its budgeted General Fund expenditures and non-expenditures, such as inter-fund loan payments, by \$32,963. It exceeded budgets in two other funds totaling \$7,487 and five other funds totaling \$223,995 in 2009 and 2010, respectfully. As of October 2011, the City could not estimate the 2011 ending balance for all City funds.

### Cause of Condition

The City has incurred large costs associated with public records requests and pending public records litigation.

In addition, the Council did not effectively monitor its budget and control costs by reviewing financial information and amending original budget figures in an accurate manner. Although the City Council received financial information quarterly during 2011, it was less frequent in previous years.

## Effect of Condition

The City cannot be sure it can provide services at current levels or meet operating expenses.

Without timely budget monitoring, the City cannot maintain control over the allocation and use of resources. When expenditures exceed authorized appropriations, public funds are spent without legal authority and without the knowledge of interested citizens.

## Recommendation

We recommend the City develop a formal financial plan to address its cash flow issues and monitor and evaluate actual results compared to the plan to ensure its financial condition improves. The plan should be revised if expected improvements are not achieved.

We further recommend that City monitor actual expenditures to prevent future fund over-expenditures

## City's Response

*The City has already adjusted its approach to reviewing expenditures with the 2012 Council. An upgrade to the BIAS Financial Software will allow the City Clerk/Treasurer to create more responsive monitoring reports than has been available in the past. In addition, the Finance Group will be comparing line item cumulative expenditures on a periodic basis, e.g. monthly, to expenditures to date. The Council will likely amend the budget in April to reflect the current situation.*

*The City cannot provide the same level of services to the citizens as has been done previously, or even know that it will not be driven into bankruptcy. The root cause of this is decreased state assistance and sales tax income and no practical control of public records requests or lawsuits. As long as the "bounty hunter provision" and "overbroad provision" of the Public Records Act exists, there will be people who utilize those portions extensively, irrespective of the damage it does to the community.*

*An example of this is a public records request that we recently received. The request was for all documents retained by any attorney contracted by the City since January 2009. The City responded that this request would cost the local taxpayers approximately \$20,000 to process and asked what the objective was of the request. The response back was for expedited service. Again, it was pointed out that this request covered 5 different attorney firms in 4 different cities. The requester simply asked for a public inspection of the records, having been informed that the cost to the taxpayers was for the collecting and preparing of the records and that an inspection would not reduce these costs.*

*The City is required by law to provide these records at essentially no charge. This is little more than a gifting of public tax dollars to an individual. This request is just one of many from that individual. The legislature provides no recourse to these sorts of actions and imposes penalties for any "mere imperfection" in responding.*

*For the record, "bounty hunter" and "overbroad" are Washington State Supreme Court designations and "mere imperfections" is a Washington State Attorney General comment. All terms relate to the Washington State Public Records Act.*

*The City has provided a more detailed response to each finding and that response is available from the City upon request.*

## **Auditor's Remarks**

We will review the condition during our next audit.

## **Applicable Laws and Regulations**

RCW 35A.33.120 Funds--Limitations on expenditures--Transfers and adjustments.

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the code city, the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year, without regard to the individual items contained therein, except that this limitation shall not apply to wage adjustments authorized by RCW 35A.33.105; and
- (2) The unexpended appropriation balances of a preceding budget which may be carried forward from prior fiscal years pursuant to RCW 35A.33.150; and
- (3) Funds received from the sale of bonds or warrants which have been duly authorized according to law; and
- (4) Funds received in excess of estimated revenues during the current fiscal year, when authorized by an ordinance amending the original budget; and
- (5) Expenditures required for emergencies, as authorized in RCW 35A.33.080 and 35A.33.090.

Transfers between individual appropriations within any one fund may be made during the current fiscal year by order of the city's chief administrative officer subject to such regulations, if any, as may be imposed by the city council. Notwithstanding the provisions of RCW 43.09.210 or of any statute to the contrary, transfers, as herein authorized, may be made within the same fund regardless of the various offices, departments or divisions of the city which may be affected.

The city council, upon a finding that it is to the best interests of the code city to decrease, revoke or recall all or any portion of the total appropriations provided for any one fund, may, by ordinance, approved by the vote of one more than the majority of all members thereof, stating the facts and findings for doing so, decrease, revoke or recall all or any portion of an unexpended fund balance, and by said ordinance, or a subsequent ordinance adopted by a like majority, the moneys thus released may be reappropriated for another purpose or purposes, without

limitation to department, division or fund, unless the use of such moneys is otherwise restricted by law, charter, or ordinance. [1967 ex.s. c 119 § 35A.33.120.]

# Schedule of Audit Findings and Responses

## City of Gold Bar Snohomish County November 29, 2011

### 2. The City lacks adequate internal controls over payments to ensure compliance with state law and to safeguard public funds.

#### Background

The City spent \$1,476,296 in 2009 and \$1,838,015 in 2010 on items such as equipment, supplies, petty cash reimbursements and monthly credit card bills for travel and miscellaneous expenses.

In previous audits, we recommended the City improve internal controls over payments, but it has not done so. As a result, the City cannot be sure payments are made only for a valid public purpose and are allowable under state law and City policy.

#### Description of Condition

The City Council appoints the Clerk-Treasurer to process and oversee daily accounting and financial operations that the Finance Committee, Mayor and City Council monitor. The City's Municipal Code and policies establish some internal controls regarding purchasing and payments. However, we found the City:

- Does not monitor credit cards to ensure charges are adequately supported and cards are safeguarded.
- Does not comply with City code or policies regarding purchase order use and pre-approval for some payments, including travel expenses.
- Allows its Public Works Department employees to purchase boots and work clothes at public expense. We found no policy that allows this.
- Does not ensure professional service contracts are established for vendors providing ongoing services to the City.

#### Cause of Condition

The City relies on the Finance Committee, composed of two citizens and a Council Member, to review all payments prior to Council approval. This review process does not include ensuring the expense complies with City code and policies and is adequately supported.

The City is aware that current practices are not in alignment with its policies and code. The City feels they are outdated, but has not made it a priority to update them.

Lastly, the City believed that its original procurement of computer equipment from a vendor allowed it to continue to obtain services past the original purchase. It was not aware that these services represented a professional service and needed to be supported by a contract.

## **Effect of Condition**

The City cannot be sure that public funds are adequately safeguarded. Specifically:

### **Credit cards**

- The City has authorized the bank to automatically pay the monthly credit card bill, prior to the Clerk-Treasurer reviewing the amount for accuracy. It paid this vendor a total of \$7,078 and \$5,504 in 2009 and 2010, respectively
- The City is not enforcing its requirement that employees submit receipts for all purchases. They submitted no receipts for fuel card purchases totaling \$4,548 and \$5,552 in 2009 and 2010.
- City policy requires department heads to monitor card distribution and charges made by employees. However, the Clerk-Treasurer does this.
- The City has two vendor credit accounts with limits of \$20,000 and \$10,500. They exceed the \$5,000 allowed by City policy.

Without reviewing charges prior to payment, requiring adequate support and monitoring credit activity, the City is at an increased risk of loss or misappropriation of public funds.

### **Payments**

The City is not following City Code that allows the Mayor to authorize budgeted purchases of less than \$500 when a purchase order is first obtained from the Clerk-Treasurer to ensure sufficient funds are available. Council approval is required for purchases of more than \$500. We found:

- The City is not using purchase orders.
- The City's two department heads regularly authorize budgeted payments instead of the Mayor.
- Employees may purchase items on account from several vendors without evidence of prior authorization.

Without proper payment authorization, City funds could be spent for goods and service that do not meet City management's financial goals and objectives.

### **Travel**

City employees do not prepare travel and training request forms required by policy and do not always provide itemized receipts for travel expenses, including meal reimbursement requests. We judgmentally chose 25 credit card charges to examine and found two totaling \$628 that did not have sufficient support.

Additionally, we noted the policy does not require receipts for transportation and lodging.

Without proper authorization and support the City could reimburse travel costs that had not been paid by employees or for a non-City-related purpose.

### **Employee clothing allowances**

We found three charges totaling \$488 for employees' purchase of work-related clothing. The City does not have a policy that establishes the public purpose of these purchases.

### **Professional services contracts**

We found one instance where the City procured computer equipment in 2008 and continued to procure ongoing services from this vendor through 2011. The City expended \$7,903.07, \$4,592.78 and \$1,825 in 2009, 2010 and through October 2011, respectfully, for items such as servicing the equipment purchased and consulting the City on other data related requests. The City did not establish a professional service contract for the ongoing services and did not indicate that additional services would be obtained in its May 20, 2008 meeting minutes that approved the original purchase.

### **Recommendation**

We recommend the City improve internal controls by:

- Consistently monitoring credit card charges to ensure they are reasonable, supported, approved and within the City's authorized credit limits.
- Ensuring it complies with City codes and policies on payments.
- Formally authorizing fringe benefits, allowable uses and limitations on benefits to be provided to employees.
- Ensure all professional services procured by the City are supported by contract.

### **City's Response**

*The City had already been addressing the issues raised. Operational procedures are already in place, codification of those procedures will be done as time and/or money becomes available.*

*The City has provided a more detailed response to each finding and that response is available from the City upon request.*

### **Auditor's Remarks**

We will review the condition during our next audit.

## Applicable Laws and Regulations

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies. Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Each entity is responsible for establishing and maintaining an effective system of internal controls throughout their government . . . An internal control system should provide reasonable assurance that an entity will accomplish its objectives.

RCW 42.24.080 - Municipal corporations and political subdivisions — Claims against for contractual purposes — Auditing and payment — Forms — Authentication and certification, states in part:

(1) All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered, the labor performed as described, or that any advance payment is due and payable pursuant to a contract or is available as an option for full or partial fulfillment of a contractual obligation, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision. No claim shall be paid without such authentication and certification.

City of Gold Bar – Credit Card Use Policy (Resolution No. 98-02, Resolution. No. 21-02), states in part:

### 11.3 Procedure

(b) Credit cards will be limited to credit limits up to \$5,000. The Mayor may authorize a higher credit limit if deemed appropriate.

(d) Authorization and Control: Each department head will be responsible for the distribution and tracking of each credit card issued to his/her department.



(e) Payment of Bills: Billing statements will be sent to the Clerk-Treasurer. The Clerk-Treasurer will establish a system of receipt collection and will prepare a voucher, with appropriate receipts attached, for the total amount of the current statement.

City of Gold Bar – Municipal Code, states in part:

3.08.010 – Expenditure of funds below five hundred dollars.

A. Any purchase of supplies, material, equipment or services, except wages for city employees and contract services, when the costs are less than five hundred dollars (\$500.00), excluding tax, may be made by the mayor without council approval; provided, that the purchase is within the department's budget and the mayor first obtains a purchase order from the city clerk, which shall not be issued unless sufficient funds are available to cover the purchase.

3.08.020 – Expenditure of funds of five hundred dollars or more.

Any purchase of supplies, material, equipment or services except wages for city employees and contract services where the cost thereof is five hundred dollars (\$500.00) or more, excluding tax, shall not be made by the mayor, or anyone else on behalf of the city, unless the expenditure is first approved by the city council or the expenditure meets the emergency provisions of Section 3.08.030. Provided, however, the mayor may authorize noncapital expenditures from five hundred dollars (\$500.00) to two thousand dollars (\$2,000.00) for items pre-approved in the city's budget. All capital expenditures over five hundred dollars (\$500.00) shall still require council approval.

City of Gold Bar – Training and Travel Policies (Adopted July 2002), states in part:

12.3 Procedures

(b) Requests Procedure

(1) The employee shall submit a Travel and Training Request Form to his/her Department Head for review and approval. This form shall require the person's signature affirming compliance with City policy and authorization for payroll deductions or repayment for inappropriate charges.

(2) Travel and training requests shall be submitted by the Department Head to the Mayor for final approval.

12.5 Meal Expense

(c) Meal reimbursement requests are to be itemized and submitted to the City Clerk-Treasurer, with receipts attached. Receipts shall indicate the date, amount, and establishment name. Whenever possible, the receipt should also show the itemization of the food order.