

Schedule of Audit Findings and Responses

City of Gold Bar Snohomish County November 13, 2013

- The City's financial condition puts it at risk of not being able to meet financial needs. Additionally, the City lacks policies and procedures to ensure compliance with state law and to safeguard public funds.**

Background

During the two prior audits, we communicated financial condition concerns to the City. 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 did not establish a formal financial plan to address cash flow issues, as recommended in our prior audits.

The City spent \$2,113,458 in 2011 and \$3,436,945 in 2012. 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.

Description of Condition

Financial Condition

The City's General Fund ending cash balance declined from 2009 to 2012:

Fiscal Year	General Fund Ending Balance
2009	\$ 351,028
2010	\$ 59,955
2011	\$ 60,113
2012	\$ 29,909

General Fund expenditures exceeded revenues in three of the last four years:

	2009	2010	2011	2012
Revenues	\$614,556	\$619,144	\$614,145	\$594,861
Expenditures	\$772,591	\$910,223	\$613,987	\$685,782
Excess/(Deficit)	\$(158,035)	\$(291,079)	\$158	\$(90,021)

Additionally, total cash and investments for all governmental funds decreased from \$402,174 in 2009 to \$114,417 in 2012.

The Water Fund lent \$14,000 to the Street Fund in 2011 and \$77,000 to the General Fund in 2012. Although the Council approved resolutions authorizing the loans, it did

not approve repayment schedules. As of December 31, 2012, the City reported \$80,269 in inter-fund loans outstanding and payable to the Water Fund.

We reviewed the City's financial position at the time of audit to determine whether its condition had improved. As of July 12, 2013, the City's General Fund ending cash balance was \$67,911, which would cover approximately 1.5 days of General Fund operating expenditures.

Policies and Procedures

In 2011, we reported disbursement internal control weaknesses to management. The City has since taken steps to ensure expenditures include original receipts. However, the City has not addressed the following:

- Purchase orders are not used and there is no written documentation to prove advance purchase authorization, as required by City Code and policies.
- Employees are not preparing travel and training request forms for reimbursement, as required by policy. Additionally, the travel policy does not require receipts for transportation and lodging expenses.
- The City purchases ongoing computer services without a contract.
- The City keeps procurement and fuel credit cards in an unlocked safe where all employees have access and can self-check-out by use of a logbook. Additionally, five fuel cards in individual envelopes include the PIN access codes written on each envelope.
- The City keeps petty cash in an unlocked safe during the day where all employees have access and replenishes cash when convenient, rather than monthly as required by City Ordinance. Additionally, the current balance of \$155 does not agree with the authorized balance of \$300.

Cause of Condition

Financial Condition

The City has incurred \$139,713 in litigation costs from 2011 through July 24, 2013 associated with public records requests and pending public records litigation. Since litigation costs are unpredictable, the City has difficulty budgeting for these costs.

In addition, the City asked voters in November 2012 to approve a property tax levy to cover operating costs. The levy failed.

Policies and Procedures

The City is aware that current practices are not in alignment with its policies and code. The Mayor and contracted Clerk-Treasurer feel the policies are outdated, but have not made it a priority to update them.

Additionally, 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 or includes adequate approvals.

Effect of Condition

Financial Condition

If available cash resources in the governmental funds continue to decrease, the City is at increased risk of needing to rely on inter-fund loans to continue operations. The City may not be able to provide services at current levels or meet operating expenses in the future. The City is also at risk for creating a permanent diversion of funds if inter-fund loans are not repaid within the three-year loan period authorized by the City Council.

Policies and Procedures

By not following City policies or having effective internal controls, the City cannot be sure public funds are adequately safeguarded. Specifically, City funds could be spent for goods, services, and travel that do not meet City management's financial goals and objectives.

Procurement cards, fuel cards, and petty cash could be misused or misappropriated and not be detected in a timely manner by City management.

Recommendation

We continue to recommend the City:

- Establish a long range financial plan to address cash flow issues, monitor, and evaluate actual results compared to the plan to ensure its financial condition improves.
- Closely monitor and evaluate the financial activities to ensure the City is following the plan and achieving results. Revise the plan if it does not meet planned results.

Further, we recommend the City evaluate all of its policies and procedures over financial operations to ensure that policies align with the vision of the City and procedures are adequate to ensure compliance and safeguarding of public resources. Specifically, based on transactions reviewed, we recommend the City:

- Comply with City codes and policies on payments and travel.
- Formally authorize employee fringe benefits, allowable uses and limitations.
- Ensure all professional services procured by the City are supported by contracts.
- Safeguard procurement and fuel cards, and petty cash.
- Replenish petty cash monthly to the authorized balance, or officially reduce the authorized amount by ordinance, as required.
- Ensure inter-fund activity meets the requirements of the BARS manual.

City's Response

The credit cards, petty cash till and daily deposits have been moved to an undisclosed location, into a locked cabinet. For the past two years, the City has had more critical priorities than the updating of old ordinances and procedures. These critical procedures are now largely addressed and updating ordinances and procedures are underway.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.210 -- Local government accounting -- Separate accounts for each fund or activity -- Exemption for agency surplus personal property.

Separate accounts shall be kept for every appropriation or fund of a taxing or legislative body showing date and manner of each payment made therefrom, the name, address, and vocation of each person, organization, corporation, or association to whom paid, and for what purpose paid.

Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body.

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another

Budgeting, Accounting and Reporting Systems (BARS) Manual, Part 3, Chapter 4. - Section A. Interfund Loans (emphasis in original)

This section does not attempt to determine which money of a municipality may or may not be available for interfund lending, since the special character of some money involves commitments and restrictions which would require individual consideration. As a rule of thumb, however, it may be considered permissible to make interfund loans of those municipal money which are clearly inactive or in excess of anticipated cash needs throughout the duration of the loan **and** legally available for investment.

The minimum acceptable procedures for making and accounting for interfund loans are as follows:

1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, including the lending fund, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund.

2. Interest should be charged in all cases, unless:
 - a. The borrowing fund has no other source of revenue other than the lending fund; or
 - b. The borrowing fund is normally funded by the lending fund.
3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
4. The term of the loan may continue over a period of more than one year, but must be “temporary” in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a “permanent diversion” of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)
5. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transaction

RCW 43.09.200 Local government accounting – Uniform system of accounting.

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

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.

City of Gold Bar Municipal Code Chapter 3.36 - PETTY CASH AND CHANGE REVOLVING FUND:

3.36.010 - Fund created.

There is established and created a fund in the finances of the city to be designated as the "petty cash and change revolving fund" for the purpose of paying for purchases of small items, supplies and other expenses of a minor nature incurred for the city in connection with official business of the city, and for making change for cash payments received by the city.

(Ord. 498 § 1 (part), 1998)

3.36.020 - Custodian.

The custodian of the petty cash and change revolving fund shall be the city clerk-treasurer. In order to accomplish audit objectives of segregation of duties for internal control, the mayor or his/her designated officer shall periodically review the petty cash account.

(Ord. 498 § 1 (part), 1998)

3.36.030 - Accounts established.

The city clerk-treasurer is authorized and directed to establish the fund at an aggregate total of five hundred dollars (\$500.00) by issuance of a check. The money in this account is not intended to be a budgetary item as such, but to be in the nature of a revolving account for expenditures of a minor nature, which are chargeable to various departments and funds of the city and for making change.

(Ord. 568 § 1, 2002)

3.36.040 - Expenditures.

- A. The change revolving account will consist of two hundred dollars (\$200.00) and shall be used only for the purpose of making change for moneys received during the course of business. The petty cash account will consist of three hundred dollars (\$300.00), the maximum disbursement at any one (1) time shall not exceed fifty dollars (\$50.00). Each disbursement from the fund shall be supported by a receipt showing the date, recipient, purpose and amount of each cash disbursement. Reimbursements to the petty cash account should be made at least monthly, and reimbursement vouchers shall have receipts attached thereto. The custodian shall maintain suitable records, showing the expenditures incurred and the departments and funds of the city chargeable for such expenditures.
- B. The fund may not be used for personal use or personal cash advances secured by check or other IOU's and any use of the fund for other than expenditures incurred in connection with official city business shall be considered a misappropriation of public funds. Upon termination of the fund, all moneys remaining shall be returned to the city's general fund.