

Schedule of Audit Findings and Responses

City of Gold Bar Snohomish County December 11, 2007

1. The City of Gold Bar's internal controls over payments and cash receipting are inadequate to prevent or detect the misappropriation of public assets.

Description of Condition

The City of Gold Bar processes payments using a voucher and warrant payment system. The City's expenditures were \$1,437,049 in 2005 and \$1,225,203 in 2006. Its revenues were \$1,795,778 in 2005 and \$1,965,250 in 2006. During our audit, we noted:

Payments

The City was unable to provide us with documentation to support 28 of 44 credit card transactions we reviewed. We also noted 34 of these transactions were not properly approved. The total dollar amount of these transactions was approximately \$7,852.

Four of 18 general disbursements tested did not have an authorizing signature and one of 18 tested did not have adequate support. The total dollar amount of these transactions was approximately \$28,873.

We also found the City Council did not approve 76 out of 422 payroll vouchers we reviewed and 187 out of 1,010 accounts payable vouchers. The total of the unapproved accounts payable was \$210,492. We were unable to determine the full amount of unapproved payroll because payroll check numbers were used twice, leaving no record of the amount of the second check. The City's financial system kept only the information from the original check.

Cash-Receipting and Utility Billing

The City had utility receipts of \$387,010 in 2005 and \$407,636 in 2006. During our review of cash receipting and utility billing procedures we noted:

- The cash register is not locked during lunch when the employees leave the building.
- Utility adjustments aren't numbered, leaving the City with no way to determine if all adjustments are being reviewed.
- Deposits are made approximately every 4.75 days.
- A blank check from a utility customer was in the cabinet where the funds are kept.
- Money received during one day is not counted until the following morning.
- Keys to the room and cabinet, where the money is held at night, are kept in an easily accessible area.
- The utility clerk processes her own utility payment.

Payroll

The City had payroll expenditures of \$279,055 in 2005 and \$241,252 in 2006. During our review of payroll procedures, we noted:

- Timesheets are not always signed.
- Vacation/sick leave payout for two employees did not have adequate supporting documentation.
- The City does not retain documentation to support the authorized salaries of employees when they are hired or when they receive raises.

Cause of Condition

City management did not sufficiently monitor activities of the City to ensure internal controls are in place to ensure disbursements are properly approved and supported, cash is adequately monitored and safeguarded and payroll is accurate, properly approved and supported.

Effect of Condition

These weaknesses create the potential for public resources to be misappropriated, lost or misused without detection. Unless expenditures, payroll and cash are properly monitored, the City cannot ensure public resources are used for legitimate public purposes.

Recommendation

We recommend the City develop and follow internal controls to ensure:

- Payments are adequately supported and approved.
- Cash is deposited and reconciled in a timely manner and is adequately secured.
- Adjustments are monitored and reviewed in a timely manner.

City's Response

Payments

The City has improved the filing process for credit card receipts. While we believe that all charges were reviewed and authorized, we have adjusted our internal procedures to also require a written approval for each transaction.

The City has improved the filing process for general disbursement transactions. While we believe that all disbursements were reviewed and authorized, we have adjusted our internal procedures to also require a written approval for each transaction.

The payroll and vouchers indicated as being unapproved had been presented to City Council, however, they were not formally approved by a motion. The clerk-treasurer has implemented an internal control procedure which requires a signature from each approving council member following a passed motion for payroll and voucher payment to eliminate a reoccurrence of this situation.

The City is in process of obtaining new accounting and payroll software which will maintain more accurate records and improve record keeping. The new system will utilize a better journaling function to allow for corrections to voided checks. We believe that this will resolve any potential future replication of the problem.

Cash-receipting and utility billing

The City has limited staff to perform all of the financial transactions required for utility billing and account maintenance. Adjustments made by the utility clerk are submitted to the clerk-treasurer who verifies the adjustments and audits the account. The clerk-treasurer also verifies the daily transactions and register along with all deposits made.

The City has implemented the following procedures:

Staff has been directed to lock the cash register at all times during the business day when personnel is not present even at times that the entrance areas are secured.

The City will implement a new utility billing system which will allow for numbering and better tracking of account adjustments.

The clerk-treasurer has been directed to perform a random audit of utility accounts a minimum of five accounts per month as an additional internal control over utility billing.

The City has limited staff and are unable to make daily deposits to the nearest bank located 7 miles distance from city hall. The City will endeavor to make deposits at least 3 times each week.

Staff has been directed to reconcile utility payment transactions and the register at the end of each day.

The City will obtain a locked and secure cashbox which will be stored in a locked location accessible to only the clerk-treasurer and utility clerk when transactions must be held overnight.

The key to the register and lock box are now maintained in a secure location.

Staff isolates receipts from utility payments

Staff has been directed to have another staff member process utility payment and adjustments to their account. Adjustments to any employee account will require an audit by the clerk-treasurer or utility clerk.

Reference to a blank check made by the audit resulted from a request for bulk-water usage where an estimate of final billing was not available. We believe this to be an isolated incident. Staff has been directed to require daily payment for any bulk-water usage customer.

Payroll

The unsigned timesheets resulted from a temporary shortage of personnel to verify internal procedures. The personnel shortage has been resolved.

We believe that appropriate documentation exists relating to the vacation and sick leave payout at the time of payout and approval, however, the City's payroll system is inadequate to recreate the data. The City will be implementing a new payroll software system to resolve the data issues and will issue a written documentation to support any future vacation/sick leave payouts for employees to be retained in the employee file and with the approved warrant.

The City does retain documentation of employee salaries at hire through approved council minutes. The City has now implemented an internal procedure to require a formal letter of hire following council confirmation of the new employee and salary.

The City had previously adopted a step-raise schedule by council resolution. The City has now implemented an internal procedure to add written documentation of any raise to the employee file and will consider another resolution clarifying the process for employee raises.

The City made substantial improvements both before and following this audit which mitigate most, if not all of, the concerns identified. Thank you for your assistance in identifying ways to improve our efficiency and we look forward to the enhancing the quality of service to our citizens.

Auditor's Remarks

We appreciate the City's commitment to resolve the finding and 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

The *Revised Code of Washington* 43.09.200 states in part:

The state auditor shall formulate and 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 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.