



Washington State Auditor's Office

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Accountability Audit Report

City of North Bonneville

Skamania County

For the period January 1, 2013 through December 31, 2014

Published November 9, 2015

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Washington State Auditor's Office

November 9, 2015

Mayor and City Council
City of North Bonneville
North Bonneville, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the City's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in blue ink, reading "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, City operations complied with applicable requirements and provided adequate safeguarding of public resources. The City also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the City could make improvements.

We recommended the City establish formal policies and procedures over all aspects of payroll, utilities and cash receipting. These policies should establish internal controls to ensure funds are adequately safeguarded. These policies should also include sufficient monitoring and oversight by an independent party.

We also recommended the City:

- Adopt and follow a formal, comprehensive plan that includes detailed financial benchmarks and guidelines to specifically meet loan requirements.
- Closely monitor and evaluate its financial activities to ensure the plan is being followed and the desired results are achieved.
- Revise the plan as needed to resolve funding issues.

These recommendations were included in our report as findings.

About the audit

This report contains the results of our independent accountability audit of the City of North Bonneville from January 1, 2013 through December 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Financial condition
- Interfund loans
- Payroll and leave benefits
- Utility billing, receipting and adjustments

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The City's financial condition puts it at risk of not being able to meet its financial obligations or maintain current service levels.

Background

An elected City Council and Mayor govern the City and a Clerk/Treasurer is responsible for financial transactions. The City's 2014 operating budget was \$1.6 million. The City's primary sources of revenue are property, sales, and hotel/motel taxes and water/sewer billings.

During the prior three audits we have communicated financial condition concerns to the City. Although the City is taking steps to improve financial condition, its condition remains a concern.

Description of Condition

The City's total cash and investment balances at fiscal year ends were:

Fiscal Year	Total Cash and Investments
2009	\$1,205,111
2010	743,099
2011	352,198
2012	406,994
2013	348,406
2014	357,581

The General Fund had a cash and investment balance of \$15,684 on December 31, 2014.

The City has worked toward identifying necessary capital facility improvements and has identified some revenue sources, such as grants to fund these improvements. While the City believes that overall cash position has improved from prior years, the following concerns remain:

- Although the City tailors its current budgets to meet projections, it has not adopted a formal, comprehensive plan for sustaining a healthy financial condition.
- To maintain a positive General Fund cash position and continue operations, the City made inter-fund loans of \$200,000 from restricted funds in prior years. On December 31, 2014, \$78,518 remained

outstanding on these loans. In addition to the interfund loans owed by the General Fund there was also \$75,664 of other interfund loans owed by various City funds.

- With the exception of a loan issued in 2014, loans totaling \$141,766 at year end have been outstanding for longer than three years.

Cause of Condition

The City provides a wide array of services but lacks sufficient revenue streams to provide these services at their current level. Additionally, the Mayor and Council have not placed a high priority on developing a formal comprehensive plan to follow to ensure future financial health. Instead, the City has been using its annual budget process to reduce expenses and look for additional revenue streams.

Effect of Condition

The City is at risk of not being able to meet financial obligations or maintain services at its current levels. The City is also at risk of not being able to repay the interfund loans, which could lead to a permanent and therefore inappropriate diversion of restricted funds.

Recommendation

We recommend the City:

- Adopt and follow a formal, comprehensive plan that includes detailed financial benchmarks and guidelines to specifically meet loan requirements.
- Closely monitor and evaluate its financial activities to ensure the plan is being followed and the desired results are achieved.
- Revise the plan as needed to resolve funding issues.

City's Response

The City's financial condition places it at risk of not being able to meet its financial obligation or maintain current service levels.

This is a recurring condition with a family of circumstances responsible for its continued existence.

The City acknowledges the audit finding and its recommendations.

It should be noted our community is experiencing many new and positive financial energies that should help to restore the City coffers, to the extent it will have the capacity to meet its financial obligations and restore depleted service levels. With more revenues the City will also be able to address the audit concern about the City's lack of financial oversight and sufficient revenue controls.

The City plans to take the following actions to improve our financial position:

A goal of eliminating all existing interfund transfers by December 2016;

A goal of not using the interfund funding tool [if needed] for more than a 12 month period;

A separation of the Clerk position from the combination Clerk/Treasurer, Administrator position. Through this action the Clerk will become a standalone position with its own authorities. This separation of duties should help distribute financial oversight and improve revenue controls. This action is planned to occur in January 2016.

Hire a new part time deputy clerk January 2017. That action is intended to provide for further independent monitoring and oversight as a means to strengthen controls.

The City will ask a third party proficient in financial matters to review our actions and conducts on a regular basis as another control measure.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank for the City for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-002 The City should establish adequate internal controls over its financial operations to avoid the risk of misappropriation.

Description of Condition

The City continues to have internal control deficiencies over its financial operations. Specifically, the City lacks adequate internal controls, policies and procedures related to payroll, utilities and cash receipting.

Our audit identified the following internal control deficiencies:

Payroll

The City has a collective bargaining agreement with employees. The City spent \$251,329 and \$229,034 in payroll during 2013 and 2014, respectively. We reviewed pay and leave accruals for employees and found:

- Payroll was processed without adequate oversight. Specifically, timesheet hours were recorded into the payroll system without subsequent review. No review was performed over final payroll amounts to ensure that pay information and holiday leave accruals were accurate and complete.
- The City Administrator did not submit timesheets as this is an exempt position. However, monthly exception-based leave slips were not being submitted to document use, or lack thereof, of leave hours.

Utilities and cash receipting

The City received approximately \$393,000 in 2013 and \$430,000 in 2014 for water and sewer utility services. We noted the following:

- Meter readings were manually entered into the billing software without review to ensure they were accurate and complete.
- The individuals responsible for preparing utility bills can also record utility payments, process utility account adjustments, and void or delete transactions in the utility system without adequate monitoring. Additionally, the individual responsible for reconciling cash can also receipt, record adjustments and prepares the bank deposit.

- Utility adjustments and voids were not approved or adequately supported. There was no process in place to ensure these transactions were valid.
- Daily cash deposits and cash drawers were stored in a location where multiple individuals have access.

Reconciliation of financial activity

While the City was performing procedures to confirm deposits and verify payments made, a complete reconciliation of cash and investment balances was not being performed.

Cause of Condition

The City has limited staff and resources available to segregate duties and perform sufficient monitoring procedures. This has made it difficult for the City to prioritize independent monitoring and oversight necessary to strengthen controls.

Effect of Condition

The City does not have adequate internal controls to safeguard public resources. Without adequate internal controls, public funds are at risk for misappropriation, misuse or loss that would not be detected by management in a timely manner, if at all.

Our audit specifically noted the following errors:

Payroll

- Employees should accrue floating holiday leave at eight hours per year. For a portion of our audit period, we noted employees received this allocation on a monthly basis rather than once annually.
- Errors in calculating payroll amounts were due to discrepancies between timesheet hours and hours in the payroll system.

Utilities and cash receipting

Account adjustments were not supported or approved and we were unable to determine the validity of selected adjustments.

Reconciliation of financial activity

The City attempted to reconcile ending cash and investments between the bank and accounting records as of September 30, 2015 and could not account for a difference of \$21,000.

Recommendation

We recommend the City establish formal policies and procedures over all aspects of payroll, utilities and cash receipting. These policies should establish internal controls to ensure funds are adequately safeguarded. These policies should also include sufficient monitoring and oversight by an independent party.

City's Response

Payroll

Payroll was not processed with adequate oversight. Specifically, timesheet hours were recorded in the payroll system without subsequent review. No review was performed over final payroll amounts to ensure that pay information and holiday leave accruals were accurate and complete.

The timesheets are created using an Excel format, so the hours are manually entered. Once the timesheet is reviewed by the individual employee, the hours/time allocation is reviewed by their supervisor. During the time period 2013/2014 the timesheets were reviewed by two deputy clerks and the supervisor. Once the information is entered, the Vision system breaks down the individual component amounts. Once the payroll "run" is complete – multiple reports are printed out and reviewed. That includes reports for Federal Taxes, L & I, Unemployment, Medical, Veba, Retirement, and Union. The administrator creates a payroll packet attesting to its accuracy that is provided to City Council members for review. The City Council packet includes a register, paycheck activity report, timesheet summary activity report, and an employee accruals report. Accordingly, there is more than one payroll oversight review every pay period. The payroll packets are preserved and available for public review.

Beginning with our next payroll, an hours audit report will be printed after the hours are entered and reviewed by the City Administrator or the Mayor before payroll is processed.

The City Administrator did not complete timesheets as this is an exempt position. However, monthly exception leave slips were not being submitted to document use or lack thereof, of leave hours.

The Administrator will construct a monthly leave slip to document their leave use or lack of.

Utility and Cash Receipting

Meter readings were manually entered into the billing software without review to assure they are accurate and complete.

There are two reviews of the meter readings – one when the readings are manually entered and one before the bills are sent to the publishers. When the readings are entered into the Vision system, it shows the previous reading and the usage based off the previous amount subtracted from the current amount. The usage is calculated by the Vision system, not the employee. Those two numbers will automatically show you if there has been an inaccurate reading entered. Since this automatically shows errors the employee can immediately check the meter sheet and even call to have the account re-read. The other review is an actual report that is printed out from the Vision system. This report shows every account and the amount that they are being billed from least to most amount. The report is reviewed and any accounts that seem “incorrect” are checked for accuracy. Additionally, almost daily we are asked by a customer to check their meter reading to assure its accuracy as citizens are cognizant of billing variations.

The individual responsible for preparing utility bills can also record utility payments, process utility account adjustments, and void or delete transactions in the utility system without adequate monitoring. Additionally, the individual [responsible] for reconciling cash can also receipt, record adjustments and prepare the bank deposit

The City will print out utility adjustment reports and have them reviewed by the City Administrator or the Mayor for accuracy.

Utility adjustments and voids were not approved or adequately supported. There is not process in place to ensure these transactions are valid. Account adjustments were not supported or approved and we were unable to ascertain the validity of selected adjustments.

We were asked to address 5 utility adjustments picked at random by the auditor from a 222 page document reflecting the compendium of 2013/2014 adjustments and my understanding is 4 of the 5 the items selected were adequately defended. We will ensure more detailed information is captured as part of the adjustment process and this information will be reviewed for accuracy.

Daily cash deposits and drawers are stored in a place where multiple individuals have access.

There is only one cash drawer and it has now been secured in a locked drawer. Cash deposits are placed in the vault and only staff has access to that room without invitation.

Payroll

Employees should accrue floating holidays at eight hours per year. For a portion of our audit period, noted employees received this allocation on a monthly basis rather than once annually.

The City recognizes this error did occur. It was an honest mistake and the impact was revenue neutral.

Errors in calculating payroll amounts due to discrepancies between timesheet hours and hours in payroll system.

There were payroll activity errors but this was due, in part, to the presence of three [3] part time employees with differing skill sets inputting payroll information into a fairly complex payroll software system without knowledge of one another's inputting activities or overall capacity to thoroughly understand the computerized payroll system. To minimize discrepancies these part time employees were replaced with one person responsible for payroll process.

The City attempted to reconcile ending cash and investments between the bank and accounting records and could not account for a difference of \$21,000.

The City did not attempt to reconcile these two software generated reports, rather staff constructed a spreadsheet to demonstrate how much fluctuation occurred monthly between these two reports that cannot be adjusted to the extent there is correlation between the two documents as they measure different things at differing time increments. The one report measures expenditures and revenues at a fixed point in time and the other measures transactions [deposits and receipts] that change daily as well as accumulating values gathered over many years whose origins are no longer known. Accordingly, it is not practical to reconcile the one report against the other. It was suggested we write off unclaimed revenues or duplicating payments, however we avoid writing off revenue or debt without supporting documentation. We will continue to look for a suitable resolution to this issue.

The City has limited staff and resources available to segregate duties and perform sufficient monitoring procedures. This has made it difficult for the

City to prioritize independent monitoring and oversight necessary to strengthen controls.

The City has done several things at SAO's suggestion to enhance controls since the last audit report to include removal of a second cash drawer, doing away with the petty cash fund, installation of cash bags for receipting purpose, establishing a number of processes to ensure we collect all monies owed and construction of a capital facilities plan.

The City has made controls a priority by attempting to acquire new revenue streams as a means to afford the acquisition of more employees to segregate duties and perform monitoring procedures.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank for the City for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting-Uniform system of accounting states in part:

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.

2014 *Budgeting, Accounting and Reporting System* (BARS) manual issued by the State Auditor's Office pursuant to RCW 43.09.230, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

RCW 43.09.240 Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, district, or agency, and where the department, district, or agency certifies that the money is held with proper safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer

shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of North Bonneville. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: 2012	Report Ref. No: 1011036	Finding Ref. No: 2012-001
Finding Caption: The City's financial condition puts it at risk of not being able to meet its financial obligation or maintain current service levels.		
Background: The City's cash and investment balances have declined over the past several years and as a result, the City has outstanding inter-fund loans to maintain a positive general fund cash balance. Additionally, the City had overspent budget appropriations and was unable to fully reconcile cash and investments between accounting records and bank balances.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <p><i>At the time of our last financial audit the City was simply trying to survive its dire economic circumstances. One measure of this financial desperation was the City's need to rely upon a number of interfund loan transfers to keep the operation viable.</i></p> <p><i>Since that time the City's financial picture has improved considerably and on many fronts.</i></p> <p><i>I say this noting North Bonneville's unemployment rate has dropped from 10.1 percent in January 2015 to 6.48 percent last month [August 2015]. This significant drop in unemployment is a bellwether that portends well for this community's sustainability. Correspondingly, the City's revenue streams are strengthening to the point that I do not see North Bonneville relying on interfund loan transfers as a continued financial strategy. At present we are planning to sunset the remaining interfund loans in 2016.</i></p> <p><i>The economy is part of why the City's financial strength is improving but another component has to do with City leadership. The Mayor and Council have supported a number of actions that collectively have improved our financial survivability and are worth mentioning; these include:</i></p> <ul style="list-style-type: none"> <i>Construction of a Capital Facilities Plan that prioritizes infrastructure obligations;</i> <i>Acquisition of a \$350,000 CDBG grant to replace a failing lift station;</i> <i>Extending the life of another failing lift station by 5 years;</i> 		

- *Instituting an aggressive inspection program intended to identify structural liabilities before they become too costly to resolve;*
- *Applying for a \$480,000 transportation improvements grant to restore city roads;*
- *Consolidation of the City and County court system to gain economies of scale and avoid duplication of effort;*
- *Reaching an agreement with the Washington State Department of Corrections to house its staff in our City Hall and thereby generate another income stream;*
- *Contracting for services rather than hiring full time or part time staff;*
- *Connecting a private water utility into the City's water system and thereby increasing our water customer base by 15%;*
- *More aggressive collection of utility debt by instituting a number of collection strategies;*
- *Increasing utility rates twice in the past two [2] years and by a considerable amount;*
- *Negotiation of a new union collective bargaining agreement [CBA] that significantly reduces employee health care costs;*
- *Creation of a public development authority [PDA] for purpose of establishing a government operated retail marijuana operation. This action has increased sales tax receipts, generated marijuana enforcement taxes and the creation of jobs and tourism;*
- *Employment of risk management techniques that reduce claims;*
- *Institution of a number of financial controls;*

Through these efforts the City is seeing a resurgence of industrial development complemented by new job creation; likewise, the City's overall building activity is on the rise.

In summary: the City is on better financial footing than at time of last audit. The City should be able to meet its financial obligations from this time forth without an over reliance on interfund loans to maintain positive cash flow.

This response prepared by Administrator Steven Hasson with Mayor Don Steven's review.

INFORMATION ABOUT THE CITY

The City of North Bonneville serves approximately 1,015 citizens in Skamania County. It is administered by a mayor-council form of government with five elected Council Members and an independently elected Mayor.

The City operated on a budget of approximately \$1.4 million in 2013 and \$1.6 million in 2014. The City's four full- and six part-time employees provide an array of services including water, sewer, fire control, parks and recreation and planning and building services.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of North Bonneville at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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