



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
City of North Bonneville

For the period January 1, 2017 through December 31, 2017

Published December 3, 2018

Report No. 1022742





**Office of the Washington State Auditor
Pat McCarthy**

December 3, 2018

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 independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In the areas we examined, City operations did not comply with applicable state laws, regulations, or its own policies. Additionally, the City did not provide adequate controls over safeguarding of public resources.

As referenced above and described in the attached findings, we identified areas in which the City could make improvements.

These recommendations are included with 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, 2017 through December 31, 2017.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the year ended December 31, 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Utility billing and cash receipting, including voids and adjustments
- Payroll – recalculation of gross wages, leave balances, benefits and other deductions
- Accounts payable transactions – general disbursements
- Financial condition and fiscal sustainability
- Open public meeting minutes

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The City has not effectively monitored utility rates and other financial information, resulting in a decline in the sewer utility's financial condition.

Background

The City of North Bonneville's sewer utility customer billings generated roughly \$238,000 in 2017. During the prior four audits, we have communicated financial condition concerns to the City regarding the sewer fund. Although the City has taken steps to improve its overall financial condition, the sewer fund's position remains a concern and could negatively affect the City and its ability to provide services at the current level.

Description of Condition

The sewer fund's combined cash and investment balance at fiscal year ends since 2013 were:

Fiscal year	Cash and investments
2013	\$12,642
2014	\$92
2015	\$3,071
2016	\$19,481
2017	\$3,446

We identified the following other concerns affecting the fund's financial position:

- During the prior audit, the City discovered errors in its utility billings to customers and is still in the process of evaluating whether the difference results in a net over-billing or under-billing of customers.
- The City could not accurately evaluate the current financial position of the fund because cash has not been reconciled since at least December 2017.
- The City currently anticipates financing needs for two new sewer lift stations, each at a cost of about \$350,000. The City would like to finance these improvements through grants and state loans. We noted that grants, if obtained, might require matching contribution from the City while loans require full repayment, plus interest.

Cause of Condition

While the City has raised sewer rates periodically, it has been reluctant to raise rates to the extent necessary to finance long-term needs. The City has not performed a rate study to determine the full extent of funding needed. In prior years, the City did not adequately monitor the sewer rate calculations to ensure customers were billed accurate amounts. In addition, the City has not dedicated adequate resources to ensuring cash reconciliations are performed accurately and timely.

Effect of Condition

The sewer utility's financial condition puts it at risk of not being able to meet operating demands and continue providing basic service. Lack of accurate and current information about cash position from a cash reconciliation prevents the City from monitoring the continued concerns with financial condition. Further, to finance immediate needs, the City likely will need to raise sewer rates significantly. Finally, if the City uses resources from other funds to improve financial condition of the sewer utility, it could have a negative effect on the City's overall financial condition.

Recommendation

We recommend the City reconcile its cash and use that information to develop a comprehensive financial plan to address the sewer fund's financial condition, including reviewing rates. The City should revise the plan if it does not achieve the expected financial improvements.

City's Response

This issue is partially corrected and in process. We have completed an internal audit of all residential utility accounts, including all yearly CPI and council-based resolution price changes. The next step of our internal utility audit will address our commercial accounts, which consisted of the largest billing errors. Due to our lack of staffing, this research has taken longer than anticipated and will likely be completed and remedies decided upon by early 1st quarter of 2019. We have budgeted for a part-time receptionist in 2019 to allow us more time to address this and other financial and procedural matters. The final review and decision on how to address the over and under billings is under discussion and will need final approval through council when our numbers are confirmed as accurate. Through reviewing 2017 receipting and invoicing practices, we have discovered that our sewer fund is unhealthy in large part due to improper management of the use of BARS codes. The Mayor and I are in process of remedying this by finding and correcting improper allocation on receipts and invoices from early 2018 when we

had a full-time Deputy Clerk/Treasurer handling all AR/AP and ensuring the proper codes are used in our daily AR/AP going forward. We are confident that water and sewer funds will be strong again through proper allocations. It had also been discovered that the public works department was told to assign all overtime worked only to water or sewer for several years. This procedure has grossly misrepresented what public works was focusing on through the work day and depleted our water and sewer accounts towards payroll for hours not even worked in those areas. We have created a new time sheet for them to properly allocate their hours moving forward. In response to the lack of cash reconciling, we are now starting this procedure and will continue to keep it in place for management, accountability, and public fund protection. We are currently working on a comprehensive financial plan to address the water/sewer funds as well as proper AR/AP procedures and will adjust accordingly if results are not achieved. This plan will include a rate study in the spring of 2019 prior to the regular annual increase in March to determine if rates need to be increased for the well-being of the city. We have been working with the EDC for assistance with grants for the replacement of our lift station and are currently number three on the project list. There is a high likelihood of obtaining this grant next year and with better controls and a solid financial plan, we should have a significant fund buildup in our water and sewer reserve accounts this project.

Auditor's Remarks

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-002 The City did not have adequate oversight over utility billings and cash receipting to ensure the safeguarding of public resources.

Background

In 2017, the City of North Bonneville received \$204,629 and \$238,339 for water and sewer utility services, respectively. During the prior two audits, we communicated concerns about the City's internal controls over utility billings and cash receipting.

Description of Condition

The City continued to have deficiencies in its internal controls over utility billings and cash receipting. Our audit identified the following:

Utility billing

- The City has not developed a collection policy and did not have a process in place to follow up on past-due accounts.
- In the prior audit, we found the City lacked controls to ensure that utility customers were billed appropriately following adopted rate schedules and approved consumer price increase (CPI) adjustments. Although the City took steps to improve the accuracy of current billings, prior discrepancies were not resolved.

Cash receipting

- Funds were not receipted in the system immediately upon collection.
- Cash receipts were not independently reconciled to deposits. The employee who reconciled deposits also receipted cash.
- Multiple employees shared a cash drawer.
- Multiple employees could access the cash storage location during the day.
- The City had no review or approval process to ensure adjustments and voids were valid and have adequate support.
- Deposits were not made weekly in accordance with the deposit timeline approved by the City Council.
- The City has not reconciled cash since at least December 2017.

Cause of Condition

The City had limited staff and resources available to segregate duties and perform sufficient monitoring procedures. In addition, the City has experienced significant turnover in key accounting positions, making it difficult to provide the oversight, training and knowledge necessary to strengthen controls.

Effect of Condition

Without adequate internal controls, public funds are at risk of misappropriation, misuse or loss that would not be detected by management promptly, if at all.

Our audit specifically noted the following:

Utility billing

As of September 30, 2018, the City had \$89,028 in utility accounts receivable that were over 90 days past due. However, because of the unresolved billing errors from prior years noted above, the City has not been able to determine how accurate this balance is. Additionally, the unresolved billing errors represent multiple underbillings and overbillings to customers, and the City has not been able to adequately compensate customers for over-billings or bill them for under-billings.

In addition, the Sewer Fund's financial condition is declining. Without controls in place to ensure it bills customers at correct rates and collects all funds it is owed, the City risks not being able to maintain current utility service levels. During the current audit, we reported concerns related to the Sewer Fund's declining financial position in Finding 2017-001.

Cash receipting

Account adjustments were not supported or approved. As a result, we could not determine the validity of selected adjustments.

In addition, we noted nine deposits over four months that were not made within a week of receipt, which is the maximum time allowed.

Further, the City could not support that deposits were made intact and in the same form – cash or check – the payment was made.

Recommendations

We recommend the City establish formal policies and procedures over all aspects of utility billing and cash receipting. These policies should establish internal controls that ensure adequate safeguarding of public funds. These policies should also include sufficient monitoring and oversight by an independent person.

We also recommend the City continue its research to determine the extent of the utility billing errors and follow up on them accordingly.

In addition, we recommend the City perform monthly cash and investment reconciliations and address discrepancies timely.

City's Response

This issue is partially corrected and in process.

The response to this finding ties in to the response for finding 2017-001. As mentioned previously, we have completed an internal audit of all residential utility accounts, including all yearly CPI and council-based resolution price changes. The next step of our internal utility audit will address our commercial accounts, which consisted of the largest billing errors. Due to our lack of staffing, this research has taken longer than anticipated and will likely be completed and remedies decided upon by early 1st quarter of 2019. We have budgeted for a part-time receptionist in 2019 to allow us more time to address this and other financial and procedural matters. The final review and decision on how to address the over and under billings is under discussion and will need final approval through council when our numbers are confirmed as accurate. The city does have a collection policy and timeframe to assess fees and shutoffs for delinquent utility accounts, however, this has not been done since the loss of our Deputy Clerk/Treasurer earlier this year. To say that we wear multiple hats and were introduced to a municipality lacking training and an adequate number of staff would be an understatement. Our focus has been prioritized towards our legal obligations and reporting requirements which unfortunately pushed this matter to the back burner until we were able to balance the workload. We are now prepared to put this procedure back into place to follow up with delinquent accounts and generating additional funds from late and reconnect fees and have both viewed our current rates within the Vision Utility system to ensure that current charges match with the current fee schedule resolutions. We are also working with Vision to set a reminder to set updated rates yearly. Immediately following your audit, we pulled up the delinquent account report and issued letters to past-due customers. The response was excellent, and several accounts made payments to the city within a week of receiving the letter to bring their accounts up to date. Receipting at the time of receiving payments continues to be a challenge due to the lack of staff. Following the audit, we immediately started issuing written receipts or stamping and signing their payment stub as "received" at the time of the transaction. The hiring of a front-desk employee at the beginning of 2019 will greatly improve, if not completely remedy this issue, as we will ensure they are properly trained on correct BARS usage and receipting procedures and immediately entering into the Vision Cash Management system. Brian and I had already separated the duties of AR/AP in response to our accountant's advice prior to the audit. Deposits are now being made weekly, and the issue of the same employee receipting as well as preparing the deposit is still

necessary, but the Mayor and I are now auditing each other's work and signing off on amounts and proper allocations prior to making any deposits. This will also be further remedied upon gaining our part-time associate, as they will be another point of ensuring correct accounting and minimizing overlooked mistakes. In response to the cash drawer reconciliation, we have not yet implemented cash drawer reconciliation within the Vision system, but we immediately started counting the till upon opening and closing of City Hall to ensure that there is always a balance of \$300 as per city code. With only one cash drawer, three employees, and a variety of duties, schedules, and working around employee time off and leave, it has proven difficult to properly manage limiting access to the cash drawer. Tom refuses to be involved in the cash drawer and will hold off on taking payments until the Mayor or myself are able, as to not have an extra hand in the pot, so to speak. We are discussing possible alternatives for the one cash drawer and key accessibility to improve on the ability to trace any losses and will present you with our solution when found. We believe the process of counting the drawer twice daily will at least lessen the possibility of loss at this point. With regards to better management and auditing of voids/adjustments, we have started a folder for all items voided/adjusted, will be looked at and initialed by both of us prior to void/adjustment, and all documentation related to will be attached for a clean audit trail.

Auditor's Remarks

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

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and Internal Control, section 3.1.3

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Revenues, Cash Receipting, Deposits, section 3.6.120

RCW 43.09.200 Local government accounting – Uniform system of accounting

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-003 The City's internal controls over payroll and accounts payable disbursements were not adequate to safeguard public resources.

Background

The City of North Bonneville serves about 1,000 citizens in Skamania County. The City is administered by a mayor-council form of government with five elected Council members. The City reported about \$405,000 in payroll and \$1.6 million in accounts payable disbursements during the audit period. In the prior two audits, we communicated concerns with the City's internal controls over financial operations, which have included payroll.

Description of Condition

The City continued to have internal control deficiencies over key financial operations. Specifically, the City lacked adequate internal controls, policies and procedures related to payroll and accounts payable disbursements, as noted below:

Payroll

- Payroll information, such as pay rates, benefit deductions, and timesheet hours, were entered into the payroll system without subsequent review to ensure the information's validity.
- The City performed a review of payroll reports before processing the final payroll run. However, no additional review occurred after payroll was finalized to ensure payroll information and leave accruals were accurate and complete.

Accounts payable

- The City did not have an adequate review process in place to ensure all accounts payable disbursements were for a valid public purpose.
- The City's auditing officer, who is the officer designated to sign the checks, warrants or initiate electronic payments, did not have an official bond as required by the BARS Manual (3.8.5.50).

Cause of Condition

The City has limited staff and resources available to segregate duties and perform sufficient monitoring procedures. Additionally, the City experienced turnover in the City Administrator position over the past several audits. This made it difficult

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

Effect of Condition

The City did not have adequate internal controls to safeguard public resources. As a result, public funds were at risk of misappropriation, misuse or loss that would not be detected by management in a timely manner, if at all.

Our audit noted the following:

Payroll

- Incorrect hourly wages were paid to employees. We identified four Public Works employees who were paid an additional \$2.25 per hour for on-call compensation for all hours worked since 2010 instead of just those hours when the employees were on-call. During 2017, this resulted in Public Works staff being overpaid a total of \$16,430. The audit also identified one additional employee not paid at the approved hourly rate, resulting in total underpayment of \$985.
- Leave hours, including sick, vacation, personal holiday and compensatory time, were not accrued in accordance with policy and/or employment agreements resulting in discrepancies in leave balances. In addition, three employees accrued more vacation leave than allowed by policy and/or employment agreements. In total, 61 hours were accrued above the limit.
- Eight of the 43 timesheets requested for review during the audit were not kept to support hours worked.
- Two employees had total medical deductions of \$550 inappropriately withheld from their paychecks. The City identified this error and refunded one employee \$300. However, it did not refund the remaining \$250 to the second employee, who since left employment with the City.

Accounts payable

- Of the 20 disbursements tested, 18 did not have evidence of an effective independent review.
- Three payments totaling about \$5,000, did not have supporting documentation. As a result, we could not conclude whether they were allowable and served a public purpose.

Recommendations

We recommend the City evaluate its policies and procedures over payroll and accounts payable disbursements to ensure internal controls are adequately designed to safeguard public resources. Specifically, the City should:

- Perform adequate monitoring procedures to ensure payments serve a valid public purpose
- Ensure auditing officers have an official bond as outlined in the BARS Manual (3.8.5.50)
- Keep supporting documentation/records for the required records retention period
- Ensure compliance with collective bargaining agreements and employment contracts
- Reconcile and correct employee leave balances

City's Response

This issue is partially corrected and in process.

It had been discovered that the public works department was told to assign all overtime worked only to water or sewer for several years. This procedure has grossly misrepresented what public works was focusing on through the work day and depleted our water and sewer accounts towards payroll for hours not even worked in those areas. When I started this position in January of this year, our Deputy Clerk/Treasurer was responsible for payroll and timesheets and was not being reviewed for accuracy other than the Council approvals, which don't include enough detail to properly audit. I became aware of the accrual problem not being addressed within the first couple months of the year and ensured they were fixed through Vision when it was discovered that the Deputy Clerk had not yet addressed the problem regardless of multiple complaints to her from city employees. The Mayor and I are in process on reviewing the current Union Agreement, personnel manual, and other contracts to ensure pay rates, accruals, benefits, and deductions are being applied correctly going forward and will immediately remedy unnoticed issues when brought to our attention. We have also implemented a double check system when issuing payroll and maintaining all related documentation. The timesheets are approved by department managers, passed to the Mayor for second approval, then to me for third approval and input. I then create checks in the system based on the approved timesheets and print. The Mayor and I both sign the checks and double-check for errors at this point and the stub copy is initialed by the Mayor and kept for documentation along with the timesheets. As for accounts payable, if the payment was from Fire or Public Works Departments purchases, they are

reviewed and approved by the Mayor prior to purchase, upon receipt of the invoice, the Mayor and I review for accuracy, initial, and determine which BARS account the invoice will be paid from. If council approval is needed, payment is withheld until reviewed and signed off, then checks are printed and again reviewed by the Mayor and I for accuracy before distributing.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank management 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 43.09.200 – Local government accounting – Uniform system of accounting
Volume 1, Part 3, Chapter 1 of the 2014 *Budgeting, Accounting and Reporting System* (BARS) Manual (3.1.3.10 - 3.1.3.30), issued by the State Auditor's Office pursuant to RCW 43.09.230



City of
NORTH BONNEVILLE

P.O. Box 7 North Bonneville, WA 98639(509)427-8182

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of North Bonneville
January 1, 2017 through December 31, 2017**

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2017 through December 31, 2017	Report Ref. No.: 1020484	Finding Ref. No.: 2016-001
Finding Caption: The City has not effectively monitored utility rates, resulting in a decline in the sewer utility's financial condition.		
Background: The City of North Bonneville's sewer utility customer billings generate about \$257,000 annually. During the prior three audits, we have communicated financial condition concerns to the city. Although the City has taken steps to improve its overall financial condition, the sewer fund's position remains a concern and could negatively affect the City.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>An audit of accounts was completed in 2018 and discussion is in progress with council to collect/refund incorrectly billed accounts. Mismanagement of BARS distribution from payroll and water/sewer account funds have been corrected. A rate study will be performed early 2019 to determine appropriate rates for a city of our size and demographic. The combination of these efforts should improve the overall financial condition of the sewer fund.</i>		

Audit Period: January 1, 2017 through December 31, 2017	Report Ref. No.: 1020484	Finding Ref. No.: 2016-002
Finding Caption: The City should establish adequate internal controls over its financial operations to safeguard public resources and ensure proper billings of utility customers.		
Background: The City operated on budgets of \$1,676,665 and \$2,252,644 for 2015 and 2016, respectively. The City's primary revenue sources are property taxes, sales taxes and water/sewer billings. In our prior audit, we noted the City's internal controls over financial operations were inadequate to safeguard public resources and prevent misappropriation.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The accounts are up to date with current billing rates as of early 2018 and the elimination of sewer averaging has proven to rid customers and staff of the confusion that led to incorrect billing for years. We have implemented a double check system prior to issuing bills to ensure accuracy. The AR/AP duties have been separated and everything in or out is now reviewed and initialed by another staff member prior to billing and receipting. The cash drawer is now under control with only two staff members utilizing it and performing a drawer count at the beginning and end of each business day.</i>		

INFORMATION ABOUT THE CITY

The City of North Bonneville serves approximately 1,011 citizens in Skamania County.

It is administered by a mayor-council form of government with five elected Council members and an independently elected Mayor. In fiscal year 2017, the City had \$2.3 million in operating revenues. The City provide an array of services including water, sewer, fire control, parks and recreation, and planning and building services.

Contact information related to this report	
Address:	City of North Bonneville P.O. Box 7 North Bonneville, WA 98639
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Telephone:	(509) 427-8182
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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.

Contact information for the State Auditor's Office	
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