

# **Schedule of Audit Findings and Responses**

**City of Roy  
Pierce County  
August 19, 2010**

- 1. The Mayor and City Council did not adequately oversee the City's financial operations, leading to a delay in debt repayment, loss of revenue, inaccurate debt reporting and spending in excess of its budget.**

## **Background**

The City manages seven funds with an approximate total annual budget of \$900,000. The City provides water utility, street and police services. Since 2006, the City has had three mayors, four police chiefs and five clerk-treasurers.

City management, the state Legislature, state and federal agencies and bond holders rely on the information included in financial statements and reports to make decisions. It is the responsibility of city management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

## **Description of Condition**

The City has experienced significant turnover in management and staff associated with accounting and financial reporting. As a result, the clerk-treasurers did not have the small city governmental accounting experience and knowledge needed to prepare the financial statements and schedules correctly.

The Mayor and City Council did not monitor the activities of the Clerk-Treasurer or other employees to ensure they perform important procedures. The Clerk-Treasurer had sole responsibility for the initiation, authorization, recording and processing of all financial transactions without oversight by the Council or City staff.

Several times during the past two years, the Council passed resolutions increasing water rates. The Assistant Clerk and Clerk-Treasurer were responsible for ensuring those rates were charged, but did not increase them.

The Clerk-Treasurer did not provide accurate, complete and updated financial reports and budget information to the City Council. The Council did not know how to read or interpret the financial information when it was received.

The City obtained state Drinking Water State Revolving Fund loans in 2002 and 2003. Payments of principle and interest are due each October. The total due for the loans in 2008 was \$36,779.55. The City requested forgiveness of the payment, due to insufficient funds.

## **Cause of Condition**

The City experienced turnover in staff during the years under audit. The City Council and the Mayor had relied on a long-time Clerk-Treasurer to handle the City's finances. Therefore, they did not monitor the financial reporting, budgeting and cash reconciliation processes to ensure completeness and accuracy of financial information.

City management also did not provide the training for new staff and oversight necessary to ensure accurate financial reporting.

## **Effect of Condition**

The City prepares an annual report summarizing its financial position. In 2008 it under reported inter-fund debt by \$39,451 and under reported long-term debt by \$178,245. In 2009 it over stated inter-fund debt by \$1,120 and under reported long-term debt by \$29,320. We also noted the City:

- Did not report long-term debt of \$170,754 incurred for the purchase of vehicles in 2008.
- Deferred its Drinking Water Loan principle payment of \$29,320, but reported it paid on the long-term debt schedule.
- Did not report a \$40,000 inter-fund loan in December 2008.
- Over reported the inter-fund loan balance by \$549 in 2008 and \$1,120 in 2009 for the rebuilding of City Hall.

The City has delayed debt repayment, lost revenue and exceeded the budget due to inadequate financial information, untrained staff, lack of oversight and lack of review by the Mayor and Council.

The City did not properly manage or record its financial activity including:

- No one performed bank reconciliations and cash was reported incorrectly to Council Members.
- The beginning budget balances for 2008 and 2009 were not updated to actual balances.
- The adopted budget for 2009 was not supported by the detailed budget documents.
- The Street Fund exceeded its budget in 2008 and ended the year with a \$1,347 negative fund balance.
- The Equipment Replacement and Repair Fund exceeded its budget in 2009 by \$44,000.

- Water rates were not increased as approved by Council. The City lost approximately \$13,800 in revenue for the water utility and \$550 for the General Fund between 2007 and 2009.
- In 2008 debt payments of \$36,780 were delayed.

The financial statements, notes and schedules do not have all the information necessary for users to assess the financial position of the city. In addition, the City may risk not being able to meet operating expenses and debt obligations. The fund balance and total ending cash on hand by year is represented below.

Year end fund balance					
Fund	Fund Name	2009	2008	2007	2006
001	General Fund	\$ 15,196	\$ 9,185	\$ 27,285	\$ 46,820
101	City Streets	\$ (1,347)	\$ (1,347)	\$ 6,094	\$ 7,950
103	Criminal Justice	\$ 774	\$ 774	\$ 410	\$ 2,667
305	Capital Projects Fund	\$ 16,759	\$ 12,160	\$ 28,174	\$ -
402	Water Operations & Maintenance	\$ 6,516	\$ 6,961	\$ 2,788	\$ 23,976
405	Capital Improvements	\$ 70,997	\$ 47,428	\$ 81,513	\$ 93,167
501	Equipment Replacement & Repair	\$ -	\$ 1,783	\$ 23,701	\$ -
<b>Total Cash on hand</b>		<b>\$ 108,894</b>	<b>\$ 76,943</b>	<b>\$169,964</b>	<b>\$174,579</b>

## Recommendation

We recommend the City:

- Establish policies and procedures that include regular monitoring of accounting processes, including work performed by the Clerk-Treasurer.
- Perform monthly reconciliations of the general ledger to the City's bank statements. The bank statements and reconciliation should be reviewed by someone other than the preparer.
- Ensure the City Council reviews expenditures monthly, using complete and accurate financial information.
- Review budget to actual expenditures and adopt amendments as necessary prior to exceeding the authorized budget.
- Provide sufficient training for preparation of financial statements and oversight necessary to ensure accurate financial statements.

## City's Response

*The City of Roy concurs with the auditor's report. Through late 2009 Council members generally relied on the information provided to them by Mayors and City Clerk/Treasurers to be accurate. The current Mayor and City Clerk/Treasurer have been working to educate themselves as well as empower the Council to appropriately carry out the various responsibilities they hold.*

*Effective August 2009, the current City Clerk/Treasurer compiles bank statements, bank reconciliations, treasurer's report, check registers, receipt registers, adjustments, transaction journals, monthly utility totals/billings, utility reports and other pertinent items on a monthly basis and has the Mayor review and approve. Bank statements are now provided in addition to the monthly treasurer's report to council members for review and accuracy.*

*The Drinking Water State Revolving Fund loan the City has through Washington State Department of Commerce, Public Works Board was appropriately paid in 2009 along with the interest for the 2008 time period.*

*Council members have received and will continue to be trained on understanding the financial documents of the City so that clear, concise wise decisions can be made. This has included information on budgets and budget amendments, understanding monthly statements and fund types.*

*The current City Clerk/Treasurer has attended training, such as, annual reporting and BARS manual classes and will continue to take advantage of all training that relates to the position in an effort to better support the City. The City Clerk/Treasurer is implementing policies and procedures to be put in place with overview to be conducted by the Mayor/City Administrator.*

### **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We look forward to reviewing the improvements during our next audit.

### **Applicable Laws and Regulations**

RCW 43.09.200 states:

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 there from; 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 (BARS) 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.

*Budget Accounting and Reporting System (BARS) Manual - Part 2, Budgeting, Chapter 1, Budgeting Principles, Section A, Introduction, states in part:*

The budget authorizes and provides control of financial operations during the fiscal year. Upon adoption, the expenditure estimates in the fixed portion of the annual comprehensive budget, as modified by the legislative body, are enacted into law through the passage of an appropriations ordinance (city) or resolution (county). The appropriations constitute maximum expenditure authorizations during the fiscal year, and cannot legally be exceeded unless subsequently amended by the legislative body. Expenditures should be monitored through the accounting system to assure budgetary compliance.