

# Schedule of Audit Findings and Responses

## **City of Bonney Lake Pierce County January 1, 2010 through December 31, 2010**

### **1. The City's internal controls are inadequate to ensure timely and accurate accounting and financial reporting.**

#### **Description of Condition**

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified the following deficiencies in internal controls that adversely affect the City's ability to produce reliable and timely financial statements:

- The City hired a contractor to prepare the City's financial statements. City personnel did not adequately review the prepared statements for accuracy and as a result did not identify multiple errors. The 2010 statements were not available for audit until December of 2011.
- The City lacks a process to ensure the cash and investment account balances held by financial institutions are correctly reconciled to the general ledger.

#### **Cause of Condition**

The City reports its financial statements in accordance with Government Accepted Accounting Principles. These statements require special expertise and more time to prepare than other types of financial statements. City Management did not dedicate the necessary resources, such as staff time and training, to ensure accurate and timely financial reporting.

#### **Effect of Condition**

The City's financial statements, notes and the management discussion and analysis contained numerous errors. This resulted in the City submitting four versions of the financial statements for audit. The City corrected the errors.

We also noted the City over-reported cash balances in the 2010 financial statements in all funds by a total of \$725,179.

Delayed and inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies and other interested parties. In addition, it delayed the audit process and increased the audit costs.

#### **Recommendation**

We recommend City management dedicate the necessary resources and training to establish internal controls to:

- Provide adequate oversight of the financial statement and notes to ensure accurate and timely reporting.
- Establish procedures to perform monthly reconciliations of bank statements to its general ledger.

## **City's Response**

*The City hired a third party contractor to prepare the 2010 financial statements, in part, because our Accounting Manager was scheduled to be out on maternity leave during this critical time. Upon returning from maternity leave, our Accounting Manager commenced review of the 2010 financial statement and resumed other day to day accounting tasks. Considerable City resources were expended reviewing the 2010 financial statements; however, as the SAO has pointed out, errors did go undetected. During our audit engagement, as the SAO identified errors, City staff diligently performed the adjustments in order to ensure timely booking of the corrections. Subsequently, four versions of the financial statements were in fact submitted for audit. Workload issues in addition to financial statement review subsequently delayed submittal of the city's 2010 financial statements until December 2011.*

*In order to mitigate our workload issue involving timeliness of reporting, the City has prepared a detailed schedule of all tasks required to complete and submit accurate financial statements pursuant to RCW. Our detailed schedule establishes a bi-weekly status review in which our Accounting Manager and Finance Director meet to discuss progress, reporting accuracy and timeliness. Additionally we have undergone training in specific financial statement areas that have proven to be more challenging for the city; i.e. Government Wide Statements and Statements of Cash Flows.*

*The City has established and implemented strong controls to reconcile cash and investments on a daily basis. These controls will be reviewed with our SAO audit team during our next audit engagement. All cash reconciliation issues that have been identified by the State Auditor's Office are historical in nature and occurred in prior periods. The city has devoted considerable staff time to reconcile prior period cash transactions that have led to this over-reporting issue. We fully anticipate that all our historical issues will have been identified by fiscal year end 2011 and accordingly booked as a prior period adjustment.*

## **Auditor's Remarks**

We appreciate the City's commitment to resolving this issue. We will review the condition 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, and other persons.

The accounts shall show the receipt, use, and disposition of all public funds properly, 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.

*Government Auditing Standards*, July 2007 Revision, Section 5.11 states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.