

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The City did not have adequate internal controls over utility billings and cash receipting to safeguard public resources.

Background

The City collected about \$1.35 million in 2017, \$1.22 million in 2016 and \$1.2 million in 2015 for water, sewer and garbage services. The City bills utility customers monthly and collects money directly at the City Hall. The Budgeting, Accounting and Reporting System (BARS) Manual requires the City to perform a reconciliation of cash and checks collected to the deposit. In addition, state law requires the City to deposit receipts daily.

The City Municipal Code (Code) requires the City to charge a late fee to accounts that are unpaid as of the 15th day of the month. If the customer has not paid by the 15th day of the next succeeding month, the City must deliver a delinquency notice. If the customer does not contest the bill's validity in writing to the City Council or pay the account in full within 10 days of this due date, the City must turn customer utilities off. As of August 2018, outstanding utility accounts totaled \$156,788, of which \$9,110 is more than 90 days past due and \$23,562 over 60 days past due. City management is responsible for establishing effective controls to comply with City policies and safeguard public funds.

Description of Condition

We identified the following deficiencies in internal controls over utility billings and cash receipts:

- The City did not perform an adequate reconciliation of the daily receipts to the amount deposited to verify all cash and checks collected were deposited. Further, the independent review of this reconciliation was not adequate to detect discrepancies, because the reconciliation did not include a system report showing the amount collected in the forms of cash and checks.
- One person was responsible for reviewing billing adjustments, voids, deletions and unattached receipts (i.e., receipts not yet included in a deposit reconciliation); however, this person was not independent of the cash receipting process. In addition, the City did not keep documentation to show that a review of this activity was performed.
- The City did not follow Code for overdue accounts, because it did not shut off utilities for past-due accounts.

Cause of Condition

The City has not dedicated adequate time, resources and training to the cash receipting process to address prior audit recommendations. Also, City management and Council have not prioritized collecting on overdue accounts.

Effect of Condition

When proper internal controls are not established, the likelihood increases that misappropriation or misuse of public funds could occur and not be detected quickly, if at all. Also, the City's lack of controls and compliance over utility accounts could result in continued decline in revenues and financial condition.

Our audit specifically noted the following:

- Eight deposits for which the deposit slip and the receipting report did not agree. In all cases, more cash was deposited than the City reported in the receipting system, for a total difference of \$2,965. This was also identified in the prior audit.
- The City did not shut off utilities to the 10 overdue accounts tested that exceeded the required deadline. Also, the water for one account was turned off due to nonpayment, but the City later turned water services back on despite not receiving full payment for the outstanding balance as required by City Code.
- Three City officials did not keep their personal utility accounts current. These accounts ranged from \$448 to \$553 overdue at the end of July 2018. Of this amount, between \$230 and \$303 on each account was at least 60 days past due. This gives the appearance of a conflict of interest (special privileges), which violates state law.

Recommendations

We recommend the City:

- Establish internal controls over the utility and cash receipting systems to provide appropriate segregation of duties and accountability over billings, revenues and receipts
- Reconcile receipts to verify that the cash and checks collected agree to the amounts recorded in the bank deposit.
- Properly support all accounts receivable adjustments, including the review and approval by an individual independent of the billing and receipting process

- Follow City Code for overdue accounts by ensuring customers are paying in a timely manner and following up on overdue accounts as required

City's Response

The city has put policies in place that establish controls and provide appropriate segregation of duties. The Deputy City Clerk will record all monies coming in to city hall which is then verified by the City Clerk and then verified again by the City Treasurer. This ensures what was collected and recorded has gone through 3 different staff members. This is done on a daily basis. In the event that 2 of the 3 staff members are out the deposit is held until the following day to ensure it has been verified correctly prior to being deposited. Also, management has worked closely with City Attorney to ensure that city Ordinance is being properly followed in collecting and receipting utility payments and shut-offs are being done accordingly. A memo was provided by the city attorney to all city officials clarifying the policies and procedures that need to be followed along with the city Ordinance on the proper way to handle delinquent accounts. City officials have been made aware that management will follow and abide with city Ordinance as it is written so that no special treatment is being made.

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 will review the correct action taken during our next regular audit.

Applicable Laws and Regulations

RCW 42.23.070 – Prohibited Acts

RCW 43.09.240 – Local Government Accounting

RCW 43.09.200 – Local Government Accounting – Uniform System of Accounting

City Ordinance 13.04.550 – Delinquency – Notice – Shut off as method of enforcement

BARS manual ch. 3 – Accounting Principles and Internal Control