



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

August 27, 2021

Mayor and City Council
City of Vancouver
Vancouver, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial audit of the City of Vancouver from January 1, 2020 through December 31, 2020. We believe our recommendations will assist you in improving the City's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (360) 260-6409.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Lindsay Osborne, Audit Manager

Attachment

Management Letter
City of Vancouver
January 1, 2020 through December 31, 2020

Financial statement preparation

State and federal agencies, City management, and the public rely on information in the financial statements and annual report to make decisions. The City is responsible for designing and maintaining internal controls for ensuring financial statements are prepared and presented fairly using generally accepted accounting principles (GAAP). In the previous audit, we communicated concerns in a finding on the City's internal controls over financial reporting. The current audit found the City had addressed these items. However, the current audit identified the following additional areas in which the City can continue improving the financial statement preparation process.

Specifically, the City did not adequately review journal entries, financial statements and notes, and their accompanying support, which is necessary for detecting errors and ensuring statements are presented in accordance with GAAP.

As a result, the City's financial statements contained misstatements, including errors related to the calculation of pension-related balances, asset retirement obligations, and REET revenue. Additionally, the City's reconciling items presented on the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Government Wide Statement of Activities contained errors and omissions.

We recommend the City continue improving controls over preparing and reviewing financial statements and notes to ensure compliance with GAAP.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Vancouver

January 1, 2019 through December 31, 2019

2019-001 The City's internal controls were not adequate to ensure accurate financial reporting.

Background

City management, state and federal agencies and the public rely on the information included in financial statements and reports to make decisions. City management is responsible for designing, implementing and maintaining internal controls to ensure the City's financial statements, notes and required schedules are prepared and presented fairly in accordance with generally accepted accounting principles (GAAP) and provide reasonable assurance regarding the reliability of these statements.

Our audit identified internal control deficiencies that hinder the City's ability to produce accurate financial statements. *Government Auditing Standards* requires auditors to communicate significant deficiencies, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial preparation that, when taken together, represent a significant deficiency:

- The City allocates costs from central services, such as administration, human resources, finance, insurance and purchasing, to funds that benefit from the services based on estimates. Periodically, the City adjusts allocations to reflect actual amounts through a true-up. The City performed a true-up of its allocations during 2019 that resulted in an adjustment of over \$8 million. The City's process for reporting this transaction was not sufficient to comprehensively evaluate the financial statement presentation for accuracy and compliance with GAAP.
- The City did not sufficiently research Governmental Accounting Standards Board Statement (GASB) No. 83, *Certain Asset Retirement Obligations*, to ensure proper implementation.
- The City's review process of the financial statements and schedules was not adequate to detect all errors.

Cause of Condition

The City recently implemented a new accounting system and has experienced significant turnover in its accounting department the last few years. As a result, City employees were unable to dedicate sufficient time and resources to preparing and reviewing its financial statements.

Effect of Condition

The City's financial information contained errors that City management did not detect. During our audit of the City's financial statements, we found the following significant errors:

- The City recorded a material prior-period adjustment for the true-up of its 2019 cost allocations. However, because this adjustment was not a correction of an error, it should have been recorded as operating activity instead.
- The amounts reported for the Governmental Activities' current and noncurrent liabilities did not agree to supporting documentation resulting in an understatement of \$7,838,924 and overstatement of \$10,555,154, respectively. In addition, the deferred inflows related to pensions was understated by \$2.6 million due to the City using incorrect support for the journal entry that recorded the transaction.
- The Governmental Activities and Parking funds misclassified more than \$39 million and \$960,000, respectively, between Net Investments in Capital Assets and Unrestricted Net Position due to calculation errors.
- A liability for estimated decommissioning costs related to 41 City-owned wells was not reported in accordance with GASB 83.

In addition, we identified several other presentation errors, such as amounts not agreeing between the financial statements and note disclosures, duplicate note disclosures and budget to actual statements/schedules, and information not updated from the prior year, that were individually not significant, but when taken together, impair the understandability of the financial report. The City corrected all of these errors, except for the error related to reporting wells in accordance with GASB 83, in the final financial statements presented for audit.

Recommendation

We recommend the City improve internal controls over financial statement preparation processes to ensure accurate financial reporting in accordance with GAAP. Specifically, we recommend the City dedicate sufficient time and resources

to preparing the financial statements and ensure a detailed final review is performed.

City's Response

The City appreciates the opportunity to respond to recommendations provided by the Office of the Washington State Auditor. In summary, the Auditor questioned the classification of one material transaction and identified several less significant misstatements and presentation issues in the City's 2019 CAFR as reflected in the "Effects of Condition" above.

The primary cause of these "Effects" was the mid-2019 conversion of the City's ERP system, which serves as the accounting ledger. The conversion required a mid-year transfer of all accounting records and transactions between ERP systems, a complete overhaul of the City's chart of accounts (codes used to record accounting transactions) and software accounting parameters, and revamping accounting methods and controls. The City Accounting Staff worked diligently and successfully accomplished each of these tasks but they caused changes to CAFR preparation.

Many established CAFR preparation tools were incompatible with the new ERP system after the conversion. The City Accounting Staff developed innovative new preparation tools and methods for the City's CAFR and also implemented a new CAFR compilation software in order to streamline the presentation and transparency of information for citizens.

A secondary, albeit significant, cause is the lack of clear, authoritative guidance specifically regarding the adjustment of prior year estimated interfund billings. Lesser contributing causes include: 1) staff turnover requiring the City Accounting Staff to perform additional research, reassign duties and obtain external assistance; 2) during CAFR preparation in 2020, remote working related to COVID-19 pandemic orders impacted the City's ability to communicate, collaborate and access remote systems.

To address the items included in the "Description of the Condition":

- The material classification item identified during the audit concerns the presentation of the City's cost allocation adjustments. To provide background, the City has internal service funds which provide administrative services, such as payroll, human resources, etc. These internal service funds bill other departments for services using estimated billing rates. In a following year, the estimated bills are trued up to match the actual, audited financial activity.*

The true-up is either refunding amounts departments overpaid in the previous year or charging them more if they underpaid. Since the true-up represents refunds and bills for services which departments received in previous years, the City recorded this activity as a prior period adjustment on the income statement and provided a detailed note disclosure. Given the lack of clear authoritative guidance on this situation, the City took what it felt was the most conservative and transparent option for presentation.

The Office of the Washington State Auditor concluded that this true-up should be reported as current, not prior year, revenues and expenses. This represents a presentation issue whereby the correctly calculated adjustment is presented on incorrect lines of the statement.

The true up entries are composed of:

- The Internal Administrative Services Fund net refund for services provided in 2017 and 2018 of \$4.5 million, which represents 13% of the \$33.7 million estimated costs billed during those years.*
- The Self-Insured Worker's Comp and Liability Fund net of collection of additional revenue for services provided in 2018 of \$924,000.*
- The Benefits Fund net of collection of additional revenue for services provided in 2018 of \$540,000.*
- The Self-Insured Health Insurance Fund net collection of additional revenue for services provided in 2018 of \$819,000.*

The presentation error was only material to the Parking Services Fund, which had a net overpayment of \$517,118 refunded to them, which is 16% of total fund expenses and 11% of total fund revenues.

- Each year the Governmental Accounting Standards Board (GASB) issues multiple new accounting requirements. For 2019, a new pronouncement, GASB 83, required governments to record the estimated cost of decommissioning assets in the future, if an external entity imposes decommissioning requirements. These are called asset retirement obligations (AROs).*

The City Accounting Staff completed a thorough review and recorded many AROs in accordance with the requirements. The City Accounting Staff interpreted the guidance implied that assets potentially held in perpetuity would not have an ARO recorded since a disposal date may not be reached. City Accounting Staff considered this to apply to City wells since, for example, the City's oldest operating well was created in 1938. GASB 83 does not provide for an exception for these types of assets. Our estimate of the total externally required decommissioning costs is a \$210,000 liability

for the Water Sewer Fund, which is about 0.9% of the fund's reported liabilities.

- *Of the remaining, less significant issues, the majority are related to the City presenting supported and accurately calculated amounts on different lines than should be used. In total all liabilities and fund balances were reported correctly. However, they were presented on the incorrect lines in the financial statements. For example, \$39 million in one fund and \$960,000 in another fund were shown on the "Net investment in capital assets" line rather than the "Unrestricted" line due to calculation errors in CAFR preparation tools.*

In conclusion, the City made every effort to proactively address each of the challenges faced for 2019 reporting and developed innovative processes, tools, and controls in an effort to ensure the accuracy, completeness, and understandability of the CAFR. These processes and tools streamlined many procedures and served to provide better support for amounts recorded. This year the City Accounting Staff also provided vastly greater clarity in the Notes to the Financial Statements to increase transparency to citizens. Ultimately, all of the cash for the City was accounted for and financial activity was appropriately calculated. However, some balances were reported on incorrect lines. The City takes great pride in its unrelenting commitment towards continuous process improvement. The City Accounting Staff will continue to innovate and improve controls and financial statement preparation processes to provide citizens with accurate, complete, and understandable financial statements.

Auditor's Remarks

We understand the City faced challenges that affected their ability to produce accurate financial statements for audit and appreciate the background provided to further illuminate those challenges. We also appreciate the City's commitment to establishing effective internal controls and will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – uniform system of accounting

Budgeting, Accounting and Reporting Systems manual – Accounting, Accounting Principles and General Procedures, Internal Control

Government Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265

Audit and Accounting Guides (AICPA), State and Local Governments, Chapter 16
– Audit Reporting, paragraph 53

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Vancouver January 1, 2018 through December 31, 2018

2018-001 The City's internal controls over accounting and financial preparation were not adequate to ensure accurate financial reporting.

Background

City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). Our audit identified a material weakness in internal controls over financial reporting that resulted in errors in the City's financial statements.

Government Auditing Standards requires the auditor to communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over the City's preparation of its financial statements that represent a material weakness:

- The focus of governmental and proprietary fund financial statements is on major funds. Major funds are presented individually and nonmajor funds are reported in aggregate. Accounting standards provide quantitative thresholds for identifying which funds must be reported as major. The City prepared a calculation to determine its major funds, but did not identify errors within it; specifically, the amounts used to calculate major funds included interfund activity that should have been eliminated.
- Fund balance in governmental funds can be reported in one of five categories as defined in *Governmental Accounting Standards Board (GASB) Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions*: nonspendable, restricted, committed, assigned or unassigned. The City did not properly apply GASB Statement 54 when classifying fund balances for several funds.

- The City's review of the financial statements and schedules was not adequate to detect material errors.

Cause of Condition

The City experienced turnover in key accounting positions and was in the process of implementing a new accounting system while preparing its financial statements. Therefore, city employees responsible for preparing and reviewing the financial statements were unable to dedicate sufficient time and resources to ensure accurate and complete financial reports.

Effect of Condition

Our audit of the City's financial statements identified the following material errors:

- The Park Impact Fees Fund was omitted as a major fund from the governmental fund statements.
- Several governmental funds had fund balance classification errors, including:
 - The General Fund reported \$35,897,437 as committed fund balance related to the working capital reserve that should have been reported as unassigned.
 - The Capital Improvements Fund reported \$865,206 of restricted fund balance related to contractual obligations for maintenance and property development that should have been reported as committed. Also the fund reported \$15,004,301 as committed fund balance for capital purposes that should have been reported as assigned.
 - The Consolidated Fire Fund reported \$12,759,863 as assigned fund balance that related to contractual obligations for fire department operating costs that should have been reported as committed.
- Prior period adjustments were made that materially restated the beginning balances of the General and Capital Improvements Fund without including disclosures within the notes to describe the adjustments. Specifically, the General Fund's beginning balance increased by \$12,087,183 and the Capital Improvements Fund's beginning balance increased by \$5,469,997.

In addition, our audit noted a number of other errors in the financial statements that were individually not significant, but when taken together, impair the understandability of the financial report.

The City subsequently corrected these errors in the financial statements.

Recommendation

We recommend the City establish internal controls to ensure procedures are in place, such as resources, training and oversight, to ensure the financial statements are accurate, complete and in accordance with generally accepted accounting principles.

City's Response

The City has recently made several advances in the preparation of the financial statements including the implementation of new tools and reevaluating processes, but acknowledges the need for continued changes of areas not yet addressed by our review. Both during the year covered by the annual report and the period in which it was prepared, the accounting team experienced turnover and vacancy of several key accounting positions and the continued implementation of a new general ledger software. This culminated in a significantly shorter time than previous years, with less staff, during which the accounting team was able to prepare the annual report.

Currently, the City is modifying the annual report preparation process – creating new tools, reporting forms and preparation steps - and adding a new position to the accounting team. We will continue to work closely with the Office of the Washington State Auditor to understand annual changes and their guidance. The City would appreciate clear written guidance from the Office and in the BARS manual that corresponds to GASB pronouncements and implementation guides regarding fund balance classification, fund definitions, notes and changes from new pronouncements. In the City's opinion, there has been some lack of clear and consistent guidance in the application of federal and state accounting regulations that hampers the City's ability to comply year-to-year and may result in last minute changes that arise after the expected conclusion of the audit.

Auditor's Remarks

We appreciate the timely actions taken by City staff during the audit to improve the accuracy of the City's financial statements. The Office of the Washington State Auditor is committed to helping governments understand the details and nuances of financial reporting, no matter which basis of accounting a government chooses to use. In 2018, the office provided more than 120 presentations, trainings, workshops and roundtables across the state on how to prepare financial statements using Generally Accepted Accounting Principles (GAAP) or a cash-basis of accounting, prevent fraud, improve processes and more. Through our website, local governments can access the Help Desk and receive answers to auditing and accounting questions, as well as an online chat service to help clients file their legally required annual financial reports.

We thank the City for its 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
- *Budgeting, Accounting and Reporting Systems Manual* – Accounting, Accounting Principles and General Procedures, Internal Control
- *Government Auditing Standards*, December 2011 Revision, paragraph 4.23
- The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265
- Governmental Accounting Standards Board, Statement, No. 34, paragraph 75-76
- Audit and Accounting Guides (AICPA), State and Local Governments, Chapter 16 – Audit Reporting, paragraph 53
- Governmental Accounting Standards Board, Statement, No. 54
- Governmental Accounting Standards Board, Statement, No. 62, paragraph 62

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Vancouver

Clark County

January 1, 2017 through December 31, 2017

2017-001 The City's internal controls over accounting and financial preparation were not adequate to ensure accurate and complete financial reporting.

Background

City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). Our audit identified a material weakness in internal controls over financial reporting that resulted in errors in the City's financial statements.

Government Auditing Standards requires that the auditor communicate a material weakness in internal controls as a finding.

Description of Condition

The City owns and operates two parking garages in downtown Vancouver. In the prior audit, we identified concerns with the useful life used to depreciate the parking garages. During 2017, the City determined the garages were assigned an incorrect useful life and made corrections. The City's internal controls did not identify the incorrect life had been assigned when the garages were placed in service nor was there a process in place to periodically reassess the estimate to ensure useful lives assigned were reasonable and make adjustments as necessary.

In addition, the City classifies the fund balance of governmental funds based on the internal or external restrictions placed on those resources. The City did not assess fund balances at year-end to ensure classifications were supported and accurate based on applicable restrictions.

Cause of Condition

In recent years, the City had begun reviewing its capital asset records and making adjustments when applicable. The City was aware of the need to evaluate and reassess useful lives, but it did not dedicate sufficient resources to ensure these estimates were accurate and periodically reevaluated.

Additionally, the City experienced turnover in its accounting department. Current staff were unable to provide support for the evaluation of fund balance classifications.

Effect of Condition

In response to our prior audit recommendation, the City evaluated the useful lives assigned to its parking garages and changed its assessment from 20 years to 40 years to align with the City's policy for similar asset types. This resulted in a material prior period adjustment of \$5,902,116 within the Parking Fund to reverse previously recorded depreciation.

In addition, the City was unable to provide support for fund balance classifications for several governmental funds. However, classifications appear reasonable given our understanding of the fund revenues.

Recommendation

We recommend the City improve internal controls over the financial statement preparation process to ensure amounts reported are supported and accurate. We specifically recommend the City:

- Dedicate adequate resources to review capital asset useful lives to ensure they are reasonable, and ensure periodic reassessments are performed to identify changes in useful lives as needed.
- Perform an evaluation of ending fund balances to ensure classifications are supported and in line with applicable criteria.

City's Response

The City is dedicated to providing accurate and complete financial reports and to the continual improvement of its internal controls. The City made a prior period adjustment based upon the external auditor recommendations resulting from the prior audit to correct a previous misstatement in asset useful life that did not correspond with the City's policy related to asset depreciation. The asset in question is the City's Vancouver Center parking garage. The depreciation schedule was set once the asset was constructed in 2003. The external auditors pointed out life of the asset as being too short during the 2016 audit. The city promptly addressed the issue by making a corrective entry in early 2017 that increased the useful life of the asset from 20 years to 40 years, consistent with the anticipated useful life of other buildings and addressing the auditor's concerns. No other step related to the asset in question is necessary at this point.

The City is currently developing a re-evaluation process and cycle for depreciable asset useful lives, which will be established during 2018 and commence no later than 2019. Additionally, the City's new financial system Workday, once implemented in 2019, will help to automate annual re-evaluation process and cycle for depreciable asset useful lives.

The City reported fund balances of governmental funds correctly in their totality by fund in the City's financial statements. The City is developing tools and will update its processes to document its calculation of fund balance classifications between non-spendable, restricted, committed, assigned and unassigned balances categories for all funds. This will be completed by December 31, 2018.

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 corrective action taken during our next regular audit.

Applicable Laws and Regulations

- RCW 43.09.200 Local government accounting – Uniform system of accounting
- *Budgeting, Accounting and Reporting Systems Manual* – Accounting, Accounting Principles and General Procedures, Internal Control
- *Government Auditing Standards*, December 2011 Revision, paragraph 4.23
- The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265
- Governmental Accounting Standards Board, Statement, No. 34, paragraph 75-76
- Audit and Accounting Guides (AICPA), State and Local Governments, Chapter 16 – Audit Reporting, paragraph 53

Schedule of Federal Audit Findings and Questioned Costs

**City of Vancouver
Clark County
January 1, 2012 through December 31, 2012**

1. The City of Vancouver's internal controls for monitoring equipment purchased with federal money for its Non-Profit Security Program are inadequate.

CFDA Number and Title:	97.008 – Non-Profit Security Program
Federal Grantor Name:	Department of Homeland Security
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Clark County
Pass-through Award/Contract Number:	UA09-0088, UA09-0132, UA09-0133, UA09-0160, UA09-0162, UA10-0098, UA10-0120, UA10-0170
Questioned Cost Amount:	\$0

Background

The program is designed to promote coordination and collaboration in emergency preparedness activities among public and private community representatives, as well as State and local government agencies. During 2012, the City received donated equipment valued at a total of \$589,095, for the City's Fire and Police Departments (\$226,870 and \$362,225, respectively). In addition, the City was reimbursed \$3,056 for training expenditures.

Description of Condition

Federal regulations require grant recipients to maintain equipment records that identify equipment purchased with federal funds and perform a physical inventory every two years. The City's Fire Department did not maintain adequate records to support that it had performed a physical inventory as required. Further, the Department did not have adequate internal controls to ensure all equipment over \$5,000 was being tracked in its asset records appropriately.

The Fire Department's inventory process consisted of maintaining individual vehicle listings which were used by Fire Department staff to perform daily inspections of vehicles to verify equipment was still on the vehicles and in working order. These vehicle inspection were documented on checklists that did not contain enough information to specifically identify the unique assets (such as serial number), nor did the checklists include all federally acquired assets over \$5,000. Specifically, we determined that four of the 17 Fire Department assets which were valued above \$5,000 were not on its inspection checklists and were not inventoried.

Cause of Condition

Employees responsible for monitoring grant compliance within the Fire Department were not aware of federal program equipment management requirements.

Effect of Condition and Questioned Costs

When equipment records do not contain the required elements, it increases the risk that federally funded equipment may be lost, misappropriated or used for unallowable purposes. In addition, the City may not have the necessary documentation to determine if the federal government should be reimbursed for a portion of sale proceeds when disposed.

We confirmed the City still had the equipment acquired under this program in its custody and that it is being used for allowable purposes.

Recommendation

We recommend the City improve internal controls over equipment acquired with federal funds to ensure it is properly identified and tracked in compliance with federal requirements.

City's Response

The City would like to thank the State Auditor's Office and their staff for the work in this area. The City takes its responsibility for remaining accountable for compliance requirement related to equipment management seriously. As pointed out, the auditors were able to confirm our custody of all equipment. Due to staff turnover and transitions, the City was unable to provide adequate documentation of a physical inventory.

The City's Accounting Department will ensure that all fixed assets, great than \$5,000, purchased with federal funds are recorded with in the City's financial fixed asset system. On an annual basis, in conjunction with year-end reporting, a detail list will be distributed to the functional departments utilizing such equipment to verify ownership, location of use, and other relevant information regarding the grant purchased equipment.

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 corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws,

regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* [Title 44 CFR 13.32 Equipment], states in part:

d. Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

e. Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Schedule of Federal Audit Findings and Questioned Costs

**City of Vancouver
Clark County
January 1, 2007 through December 31, 2007**

1. **The City of Vancouver did not have adequate internal controls in place to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.**

CFDA Number and Title:	15.XXX-b
Federal Grantor Name:	U.S. Department of the Interior
Federal Award/Contract Number:	J943005002
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

In 2007, the City spent \$576,087 in federal funds from the Department of Interior as part of the National Park Service Cooperative Agreement (CFDA 15.XXX-b) on rehabilitation projects at the Vancouver Historic Reserve.

During 2007, the City was reroofing a building in the Historic Reserve that it had planned to pay for with city funds. After the contract was awarded, the City found additional work was required that significantly increased the project's cost. The City processed a change order to increase the project costs and decided to use \$283,036 in federal money on the project. We noted:

- The contract was not amended to include language that required compliance with prevailing wages in accordance with the federal Davis-Bacon Act. The Act requires all laborers and mechanics employed by contractors or subcontractors who work on construction contracts paid for with federal funds to be paid prevailing wages rates as established by the U.S. Department of Labor.
- The City did not collect weekly certified payrolls from the contractor and subcontractors to monitor that the appropriate prevailing wages were paid.

The City did comply with state prevailing wage law, which were specified in the original contract and for which the City obtained affidavits from the contractor and subcontractors that state prevailing wages were paid. However, in this case the higher of the state or federal wage rates must be paid. In addition, the monitoring of weekly payroll reports to ensure compliance is required by federal regulations.

Cause of Condition

The department typically responsible for ensuring compliance with the Davis-Bacon Act was not notified of the City's decision to change from local funding to federal grant funding. In addition,

the City stated the additional work was unforeseen by engineers and was identified after the project was underway.

Effect of Condition

The City cannot ensure the contractor and subcontractors have paid the proper prevailing wages to workers on the project.

Recommendation

We recommend the City improve internal controls to ensure compliance with the federal Davis Bacon Act requirements.

City's Response

The City of Vancouver would like to thank the State Auditor's Office for the time and energy invested in conducting this audit and drafting the report. The City of Vancouver is committed to compliance and accountability with the laws and processes to demonstrate best practices for municipalities.

The City appreciates the audit work of the State Auditor's Office and the opportunity to respond to this finding. Regarding compliance with the Davis Bacon Act, the City has taken immediate steps to address the finding mentioned above:

Communication has taken place with the contractor who performed work on this project. We obtained the appropriate Davis Bacon documentation and have taken steps to establish compliance. The total estimated wage difference for this project is a combined \$195.82 for all 19 prime contractor and subcontractor employees.

The City has established procedures to ensure that when funding sources change that appropriate departments are notified of such change. Procurement Services, who monitors compliance, has modified the initiating project request form to determine if there is a potential for changes to the funding source. If so, it will be monitored throughout the project to ensure that if changes are made that appropriate changes are made to the contract, including Davis Bacon Act requirements.

Within the next 12 months, the City's Internal Auditor will be performing an audit on grants management within the City, to ensure compliance with the Davis Bacon Act and all other related grant requirements.

Auditor's Remarks

We appreciate the steps the City has taken to resolve this issue and cooperation during our audit. We will review the condition during our next audit.

Applicable Laws and Regulations

Office of Management and Budget Circular A-133, Subpart C, Section 300, describes the City's responsibility to establish controls to ensure compliance with the Davis Bacon Act.

The auditee shall . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

The 29 Code of Federal Regulations (CFR) contains the Davis-Bacon Act that applies to all federal assistance programs that fund construction projects.

Title 29, Code of Federal Regulations, Section 3.3 (b) states:

Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

Title 29, Code of Federal Regulations, Section 3.4 (a) states in part:

Each weekly statement required under Sec. 3.3 shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period, to a representative of a Federal or State agency in charge at the site of the building or work . . . After such examination and check as may be made, such statement, or a copy thereof, shall be kept available, or shall be transmitted together with a report of any violation, in accordance with applicable procedures prescribed by the United States Department of Labor.

Title 29, Code of Federal Regulations, Section 5.5(a) states in part:

The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds . . . the following clauses . . . (1) Minimum wages. (I) All laborers and mechanics employed or working upon the site of the work . . . will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account . . . the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

WAC 296-127-025. Applicability of joint federal-state standards.

(1) When a public works project is subject to the provisions of the Washington state public works law, chapter 39.12 RCW, and the Federal Davis-Bacon and related acts, the contractor and every subcontractor on that project must pay at least the Washington state prevailing wage rates, if they are higher than the federal prevailing wage rates for the project unless specifically preempted by federal law. (2) When the federal prevailing wage rates are higher than the Washington state prevailing wage rates, the contractor shall pay the federal rate as required by federal law.

Jasen McEathron

From: Jasen McEathron
nt: Thursday, January 15, 2009 9:13 AM
cc: 'Royce.Pollard@ci.vancouver.wa.us'; 'Pat.Jollota@ci.vancouver.wa.us';
Ted.Gathe@ci.vancouver.wa.us; McDonnell, Pat; 'Tyler, Lloyd'
Subject: SAO Audit ~ Revised Management Letter
Attachments: COV Management Letter-Utility.pdf

Good morning,

At our December 19th exit conference, I distributed a management letter regarding some utility fund issues. Subsequently, I worked with City staff to make some refinements. Attached you will find the final management letter.

Unlike our audit reports, this management letter is not distributed and posted to our website. I do expect your audit report to be issued February 2nd. Let me know if you have any questions or comments. Take care.

Jasen McEathron
Audit Manager
(360) 260-6408, ext. 104



**Washington State Auditor
Brian Sonntag**

January 14, 2009

Mayor and City Council
City of Vancouver
P.O. Box 1995
Vancouver, WA 98668-1995

Management Letter

In planning and performing our financial and accountability audit of the City of Vancouver for the period January 1, 2007 through December 31, 2007 we noted some areas in which the City's internal controls over the uses of utility revenues could be improved. While this item is not significant enough at this time to include in our reports, we believe our recommendations will assist you in improving the City's internal controls.

We will review the status of these comments during our next audit. We have already discussed these comments and made suggestions for improvements to City officials and personnel. We would be pleased to discuss them in further detail at your convenience. If you have any questions, please contact Jasen McEathron at (360) 260-6408, ext 104.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Jasen McEathron".

Jasen McEathron, Audit Manager

Attachment

Management Letter
City of Vancouver
January – December, 2007

1. Use of Water/Sewer Revenues

The City's Water/Sewer utility fund operates on approximately \$67 million annually, generated from charges to customers. The fund had about \$78 million in cash holdings at December 31, 2007. We reviewed several projects paid in whole or in part by the utility fund where utility monies were initially used to pay the general government portion of projects. Our review focused on the adequacy of reimbursements that were made by the general fund. Interfund loan agreements and clear project budgets typically document amounts to be lent between funds and terms for repayment. We found a lack of documentation demonstrating the City's stated intent to repay the utility fund. Further, we found reimbursements were not made in a timely manner. Specifically, we noted the following issues during our review of utility fund expenditures:

- The utility fund was charged about \$1.5 million in 2005 through 2007 for an asset management system that included modules for parks (ground maintenance), streets, pavement management, and building/plant/fleet. The City had not allocated costs to the other funds benefiting from the software, and did not document their intent to repay the utility fund. We estimate the utility fund is owed \$422,926. The City included in a recent 2008 supplemental budget a transfer from the general fund of \$313,372 to the utility fund, which was approved by City Council on December 15th. The City plans to transfer the remaining balance of \$109,554 in the 2009 Spring supplemental budget.
- During 2004 through 2007, the utility fund was charged \$3.6 million for a billing and cash receipting system. The system is used to process utility payments, parking fees/fines and other general fund receipts. In 2007, the City established a memorandum of understanding and transferred \$220,525 from the general fund to the utility fund. We believe the costs should have been allocated in a more timely manner.
- From November 2006 through July 2007, the City charged \$248,932 in police evidence building costs to the utility fund, however no interfund loan agreement was developed. In January 2008, the general fund reimbursed the utility fund for this amount but did not pay \$13,323 interest on it until later in 2008.
In addition, the City began construction of the evidence building on utility-owned property about seven months prior to paying \$187,005 for the property. \$5,128 in interest due was reimbursed later during 2008. We found no agreement was established for this delayed land transaction.

- The utility fund was charged \$69,453 for architectural services that, according to the vendor's billings, related to the operations center and the police precinct. We are unable to determine how much the utility should be reimbursed due to inadequate supporting documentation of the services provided.

We recommend the City:

- Improve internal controls to ensure only supported expenses are charged to the utility fund
- Clearly document the use of utility funds to finance general government and multi-fund projects prior to their use.
- Repay the utility for those non-utility costs identified above and any related expenses outside this audit period.
- Review other charges to the utility fund to ensure they are supported.

By following these recommendations, the City will ensure that it is in compliance with State law that prohibits one fund from benefiting from another fund.



**Washington State Auditor
Brian Sonntag**

September 18, 2008

Mayor and City Council
City of Vancouver
P.O. Box 1995
Vancouver, WA 98668-1995

Management Letter

In planning and performing our federal single audit of the City of Vancouver for the period January 1, 2007 through December 31, 2007, we noted an area in which the City's internal controls over subrecipient monitoring could be improved. While this item is not significant enough at this time to include in our report, we believe our recommendations will assist you in improving the City's internal controls.

We will review the status of these comments during our next audit. We have already discussed these comments and made suggestions for improvements to City officials and personnel. We would be pleased to discuss them in further detail at your convenience. If you have any questions, please contact Jasen McEathron at (360) 260-6408, ext 104.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Jasen McEathron, Audit Manager

Attachment

Management Letter
City of Vancouver
January – December 31, 2007

1. Subrecipient Monitoring

The City passed through about \$2 million of \$9.8 million federal grant money from the Highway, Planning, and Construction grant (CFDA 20.205) to the Port of Vancouver. The City had an interlocal agreement with the Port for an environmental study. Because the City passed the funding onto a subrecipient, it has the responsibility to monitor the Port to ensure it complies with federal regulations.

We noted:

- The City did not identify the Port as a subrecipient. As a result, the City did not communicate the details of the federal award information, including the requirement to obtain a federal single audit and to manage grant funds in accordance with federal Office of Management and Budget Circulars A-133 and A-87, as required by federal regulations. The City did inform the Port that the source of project funding was federal and that the costs to be claimed for reimbursement were subject to the state Department of Transportation Local Agency Guidelines (LAG Manual).
- The interlocal agreement required the entity to provide monthly reports and documentation. The City indicated in writing that it would be inspecting all work and reports submitted under the agreement and assure that payments requested for reimbursement are eligible. However, reports were not submitted monthly basis and we found no evidence the City had reviewed sufficient documentation supporting the invoices that were submitted.
- The City met with the subrecipient before the work began, during the project, and prior to the end of the grant year. However, the City did not maintain detailed documentation of its meetings with the subrecipient that demonstrated the City was monitoring compliance with grant requirements.

We recommend the City ensure that it evaluates potential subrecipient relationships in a timely manner and monitors its subrecipients adequately in accordance with federal regulations and its own contracts.

August 15, 2005

City of Vancouver
Pat McDonnell
City Manager
Vancouver, Washington 98668

Management Letter

In planning and performing our audit of the City of Vancouver for the period January 1, 2004 through December 31, 2004, we noted some areas in which the City's controls over applying policies uniformly to all development projects could be improved. While these items are not significant enough at this time to include in our reports, we believe our recommendations will assist you in improving the City's internal controls and compliance with state laws.

We will review the status of these comments during our next audit. We have already discussed these comments and made suggestions for improvements to City officials and personnel. We would be pleased to discuss them in further detail at your convenience, or to assist you in implementing the recommendations. If you have any questions, please contact Jasen McEathron at (360) 260-6408, ext 104.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Jasen McEathron
Audit Manager

cc: R. Lloyd Tyler, Chief Financial Officer

Attachment

Management Letter

Esther Short Commons

The City contributed resources towards the Esther Short Commons building project, administered by Vancouver Housing Authority. The project was started in September 2003 and completed in June 2005. We found the following issues with impact fees owed by the Housing Authority:

- Park impact fees of \$220,320 were charged to the project, however only \$82,240 of these fees were paid at the time of the building permit issuance on September 12, 2003. City policy requires payment of impact fees at the time building permits are issued.
- As of the time of our audit, the park impact fees due to the City had not been recorded in the City's general ledger. In addition, the City has not been successful collecting these fees and has no signed payment agreement with the Authority.

The City states that the primary reason for the partial payment of the fees by the Housing Authority was the result of a significant increase in park impact fee charges that occurred after financing was secured for the project. The City also states a promissory note for the remaining \$138,080 in fees was drafted but was not finalized or authorized. The City believes RCW 35.21.685 and RCW 35.83.030 allows them to defer payment of these fees for a low income housing authority. The City has not issued the final occupancy permit for the project.

We acknowledge the City's desire to support this project, however the City should have formalized the collection of fees and followed policy when issuing the building permit for this project. We recommend the City:

- Ensure impact fees are paid or otherwise satisfied prior to issuance of future building permits.
- Commit to collecting these impact fees by finalizing, with City Council approval, the draft promissory note agreement with Vancouver Housing Authority or receive full payment of the outstanding fees.
- Record the \$138,080 plus interest as a receivable in the general ledger and make the Impact Fee Fund whole.

Firstenburg Community Center

The City is the lead agency in the construction of the Firstenburg Community Center. The building permit for the project was issued on August 13, 2004. Payment of \$601,277 in permit and transportation impact fees via an interfund transfer did not occur when the permit was issued and the transaction was not recorded in the City's general ledger.

According to the City, the impact fees were not paid because the City planned to purchase impact fee credits to cover the obligation. The City did not secure the credits and make payment on all of the outstanding fees until July 15, 2005.

City policy requires developers to pay all impact fees at the time the building permit is issued. In addition, refunds are not allowed for the substitution of impact fee credits on previously paid fees. By not requiring full payment of fees prior to issuing building permits, the City is loaning its credit that would not normally be extended to outside parties.

We recommend the City follow and apply its policies uniformly to themselves as well as other public and private entities.

July 27, 2004

City of Vancouver
Pat McDonnell
City Manager
Vancouver, Washington 98668

Management Letter

In planning and performing our audit of the City of Vancouver for the period January 1, 2003 through December 31, 2003, we noted some areas in which the City's controls over charges to restricted revenue funds could be improved. While these items are not significant enough at this time to include in our reports, we believe our recommendations will assist you in improving the City's internal controls and compliance with state laws.

We will review the status of these comments during our next audit. We have already discussed these comments and made suggestions for improvements to City officials and personnel. We would be pleased to discuss them in further detail at your convenience, or to assist you in implementing the recommendations. If you have any questions, please contact Jasen McEathron at (360) 260-6408, ext 104.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Jasen McEathron
Audit Manager

cc: Paul Lewis, Financial and Management Services Manager

Attachment

Management Letter

Restricted Funds - Water Utility

The City Utility fund operates on approximately \$49 million annually, generated from charges to utility customers. We found information technology costs that were inappropriately charged to the water utility construction fund. During our audit of disbursements, we noted that \$101,149 was paid to Clark County for the City's share of the system-wide server upgrade that supports the entire City Information Technology system. This payment was charged to the water construction fund. After we brought this information to the attention of management it was determined that the equipment should have been charged to the Technology Equipment Reserve and Revolving fund. Management has indicated that equipment was miscoded due to human error and not intentional. We have no compelling evidence to dispute that this was an error. In addition, the City has committed to correcting this transaction.

In past audits we have noted other instances where the City inappropriately charged to restricted revenue funds. However, we recognize that the City has made efforts to ensure that only allowable charges are recorded in restricted revenue funds and we did not find any other inappropriate charges during the course of this audit.

We continue to recommend that the City ensure that charges to the water fund and all restricted revenue funds are valid and supported. We further recommend that monitoring controls be effectively maintained over projects that are in progress in the future.

Schedule of Audit Findings

City of Vancouver
Clark County

January 1, 2002 through December 31, 2002

1. **The City does not have adequate internal controls in place to ensure that all charges to the utility fund are appropriate.**

Description of Condition

The City utility fund operates on approximately \$46 million annually, generated from charges to utility customers. We found payroll costs that were inappropriately charged to the utility fund. That fund is self-supported through customer charges and may not support other City services. The salary and benefit costs we identified totaled \$173,577 during fiscal year 2002. The City provided additional documentation, other than timesheets, that reduced the amount of inappropriately charged costs to \$138,337. The City has indicated the utility fund will be made whole for these inappropriately charged payroll costs.

Cause of Condition

The City does not have adequate internal controls in place to ensure that all payroll charges to the utility fund are appropriate. The City continued to charge the payroll costs of some employees after their job duties changed from directly supporting the utility fund. The City passed a supplemental budget in May 2002 that moved the funding source for some of the costs out of the utility fund. However, payroll costs continued to be charged to the utility fund. The City also did not take action to reverse the payroll costs incorrectly charged to the utility fund for the months of January through May.

Effect of Condition

State law does not allow one fund to be used to pay for activities of another. Further, revenues collected for utility services may only be used for providing those services.

Recommendations

We recommend the City:

- Develop a system of internal controls to ensure that only supported expenses are charged to the utility fund.
- Repay the utility fund for those inappropriate costs identified above and any related expenses outside this audit period.
- Review other charges to the utility fund to ensure they are supported.

Auditee's Response

The City appreciates the audit work of the State Auditor's Office and the opportunity to respond to this finding. The City processes total payroll costs of approximately \$72.5 million a year and designs internal controls to ensure that costs are charged properly. As noted above, the City will immediately reimburse the \$138,337 of payroll costs identified and any related expenses outside this audit period. The City will also review its internal controls to ensure payroll costs are charged appropriately in the future and improve reports that support monitoring of payroll costs charged to individual funds.

Auditor's Remarks

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

Applicable Laws and Regulations

Revised Code of Washington 43.09.210 provides that one fund cannot benefit another fund and states in part:

... no department, public improvement, undertaking, institution, or public service industry shall benefit, in any financial manner whatever by an appropriation of fund made for the support of another.



Legislative Building
PO Box 40021
Olympia, Washington 98504-0021

August 14, 2002

Washington State Auditor
Brian Sonntag

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City of Vancouver
Pat McDonnell
City Manager
Vancouver, Washington 98668

Management Letter

In planning and performing our audit of the City of Vancouver for the period January 1, 2001 through December 31, 2001, we noted some areas in which the City's internal control structure and legal compliance could be improved. While not included in our report, these items are presented on the following page to assist you in improving the City's internal controls and compliance with laws and regulations.

Our audit report on financial statements and federal single audit dated July 31, 2002, contains our reports on the City's internal control structure and compliance with laws and regulations. This letter does not affect that report.

We will review the status of these comments during our next audit. We have already discussed these comments and made suggestions for improvements to City officials and personnel. We would be pleased to discuss them in further detail at your convenience, or to assist you in implementing the recommendations. If you have any questions, please contact Tina Watkins at (360) 260-6408 ext. 106.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Jasen McEathron
Audit Manager
Vancouver, WA

CC: Paul Lewis, Management and Financial Services Manager

MANAGEMENT LETTER POINTS

Historic Building Rehabilitation Contract

In conjunction with the Vancouver Area Development Authority, the City contracted for rehabilitation of the munitions building. This building is a City-owned facility within the Vancouver National Historic Reserve. Based on the City's grant contract with the National Parks Service and the contract for the work performed, the City was the fiscal agent and primary lead agency for the project. The contract agreement was signed for an amount not to exceed \$700,000.

The munitions building is owned by the City and the rehabilitation project would be considered a public work under RCW 39.04.010. As a public work the project is subject to many requirements including a contract for a fixed or determinable amount duly awarded after advertisement and competitive bid.

We noted that the City did not solicit formal fixed price bids or obtain a performance bond for this project as required by state law and City policy. Instead, the City issued a Request for Proposal (RFP) and obtained a limited letter of credit for the project from the Vancouver National Historic Trust. While determining the lowest responsible bidder need not be based solely on price, bid solicitations should include sufficient specifications regarding work to be done. The RFP documents we reviewed for this project did not contain sufficient specified criteria to award the contract to the lowest responsible bidder. In addition, while a letter of credit is a form of security it is not identified as an acceptable form of security in City policy or state law. The City did ensure prevailing wages were paid as required for public works and the total amount paid was within the contract.

We recommend that the City ensure all City public works projects adhere to City policies and procedures and state law.

Restricted Water/Sewer Utility Funds

The City Water/Sewer Utility funds were established to account for operations that provide services to the general public on a continuing basis. All utility costs should be recovered primarily through user charges. In addition, all expenses should be restricted to valid costs that support the designated utility services.

During our audit we noted the following concerns related to the collection and use of funds restricted to supporting the City's Water/Sewer Utility.

Collection Procedures

During our review of the accounts receivable database for the utility accounts, we noted that City departments had approximately \$260,000 in account balances. Of that amount, \$217,000 were more than 120 days past due. We worked with internal audit staff and determined that the

accounts were being billed, but collection efforts similar to those used on non-City accounts were not being made. Specifically, shut-off notices were not being sent and service was not disconnected for nonpayment.

During the course of this audit, City Finance staff and Utility Billing Administration has worked diligently to determine if all City accounts are metered and billed. The City identified an additional estimated \$169,000 worth of services for year 2001 that were metered but not billed. The City has decided not to collect upon these unbilled services as the respective City departments were unaware of such charges. However, all of these accounts are being billed as of July 2002. In addition, one City site was found to be receiving services without a water meter. City staff has indicated that a meter will be installed.

We recommend that the Utility Department not subsidize utility service to other City funds and pursue collection on all accounts regardless of customer. We further recommend the Utility Department ensure that all connections and/or accounts be properly metered and billed.

VISION Project Fund Transfer

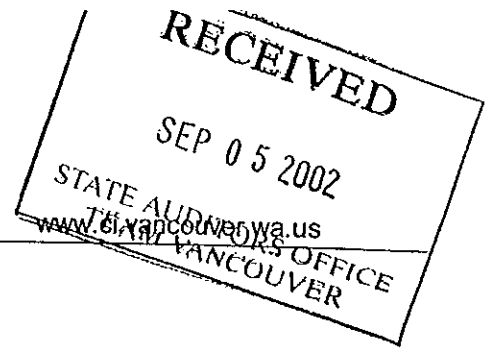
The Vision project is the purchase and implementation of an integrated Financial Management Information System to manage the financial activities of the City as a whole. The project was included in the City's 1999-2000 Budget at a cost of \$4,000,000 with \$2,000,000 to be funded by general obligation bonds and \$2,000,000 to be funded by Water/Sewer Utility revenue bonds.

In 1999, the City issued General Obligation debt to pay for a portion of the capital project. During the course of our audit, we noted a transfer in 2001 from the Water/Sewer Capital Project Fund for \$2,000,000 to the City's Capital Improvement Fund for the VISION Project. Supporting documentation for the rationale to allocate \$2,000,000 of project costs to the Water/Sewer Utility Fund was not evident during our review of the transaction.

According to City Management, the City intended to charge the Water/Sewer Utility in proportion to its total budgeted expenses for the 1997/1998 biennium as compared to the City-wide budget. As a result of our inquiry, management provided an updated analysis of projected costs for the VISION project. Based on this preliminary calculation the City is anticipating a return to the Water/Sewer Utility of up to \$208,000. Final distribution of project costs will be done once the project is closed.

We recommend that the City take steps to ensure all future fund transfers are supported by a clear rationale at the time of transfer.

P.O. Box 1995
Vancouver, WA 98668-1995



September 3, 2002

Jasen McEathron, Audit Manager
Washington State Auditor's Office
12009 NE 99th St, #1460
Vancouver, WA 98682-2453

Management Letter Response

Mr. McEathron:

This letter is in response to the management letter points communicated to the City by the Washington State Auditor's Office for the audit period January 1, 2001 through December 31, 2001. We would like to take this opportunity to thank you for your comments and for our continued professional relationship with the State Auditor's Office. We continue to act on your observations and recommendations with the highest level of priority. A brief summary of the actions the City has taken in response to the 2001 management letter is provided below.

Historic Building Rehabilitation Contract

The City has worked to ensure that all future Requests for Proposals (RFPs) on public works projects comply with all requirements. This includes having clear criteria to compare and evaluate vendors in order to select the lowest responsible bidder. The City also will obtain an acceptable form of security as required for all public works.

Restricted Funds: Water/Sewer Utility

Collection Procedures

Several years ago, the City began an initiative to have all water connections serving City sites metered and billed. We acknowledge that some of these accounts were not paid in a timely manner. All past due bills have been paid or are in the process of being paid and all metered sites are being billed. We are completing a review of City properties to ensure all are metered and billed. Payments on utility bills for City sites will be monitored closely and collection procedures will be implemented for those accounts that become past due.

VISION Project Fund Transfer

The transfer from the Water/Sewer fund for the VISION project was based on estimated project costs. Final costs will be distributed to all City funds based on the final costs of the project.

The City has made significant progress on these management letter points. We hope the above comments provide an overview of the actions we are taking to address each of the items raised in the management letter. Thank you again for your assistance in making these changes. Please contact me if you have any further questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paul Lewis'.

Paul Lewis, Manager
Financial & Management Services



*Handled
out
at
Exit*

Legislative Building
PO Box 40021
Olympia, Washington 98504-0021

Washington State Auditor
Brian Sonntag

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August 20, 2001

City of Vancouver
Pat McDonnell
City Manager
Vancouver, Washington 98668

Management Letter

In planning and performing our audit of the City of Vancouver for the period January 1, 2000 through December 31, 2000, we noted some areas in which the City's internal control structure and legal compliance could be improved. While not included in our report, these items are presented on the following page to assist you in improving the City's internal controls and compliance with laws and regulations.

Our audit report dated June 1, 2001 contains our report on the City's internal control structure and compliance with laws and regulations. This letter does not affect that report.

We will review the status of these comments during our next audit. We have already discussed many of these comments and made suggestions for improvements to City officials and personnel. We would be pleased to discuss them in further detail at your convenience, or to assist you in implementing the recommendations. If you have any questions, please contact Suzanne Levis at (360) 260-6408 ext. 111.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Jasen McEathron
Audit Manager
Vancouver, WA

MANAGEMENT LETTER POINTS

Public Works Contracts

In March 1999, the City contracted with a developer to construct a water-sewer station along with the planned development. The amount of the contract was \$178,000. During our audit, we noted the developer was paid \$483,395 for additional work outside the scope of the original signed agreement. The additional work was done under a verbal agreement between the City Transportation Department and the developer for the construction of a four lane road along the development. The additional work was subject to competitive bidding, prevailing wage and performance bond requirements.

We found the City's Finance Department learned about the verbal agreement after the work had been completed. The Finance Department took steps to ensure prevailing wages eventually were paid as required by state law. The Finance Department performed an internal review and found two other instances outside our audit period in which the City Transportation Department had verbal agreements with developers that were in violation of state law and City policies.

State law and City policy require formal, signed contracts for public work projects. We noted the following violations resulting from these verbal agreements:

- The City did not have written, signed contracts for the additional work.
- The City did not follow state law and City policy regarding competitive bidding requirements. Prevailing wages were not paid during the construction. The City Finance Department took measures to ensure prevailing wages were eventually paid.
- The City did not require the developer to post a performance bond for the additional work as required by state law and City policy.

We recommend that the Transportation Department adhere to City policies and procedures and with state law for all public work projects. We further recommend the City Finance Department redistribute City purchasing policies to all departments and consider offering training to departmental personnel.

Internal Controls over Permit Processing

The City began using a new permit system in late 1999. The system is designed to process a variety of permits, including residential, commercial, electrical, plumbing and planning fees. The City generates approximately \$2.2 million in permit revenue annually.

During our review of City's permitting system, we identified the following internal control weaknesses:

- Permit fees can be manually overridden by permit specialists.

- The system allows users, two of whom use anonymous logins, to change or alter fee amounts in the permit plan.
- The system does not have adequate controls in prevent the circumvention of the auto-numbering feature. This allows users to delete fees before the permit is paid for.
- Permits can be finalized/completed without receipt of final payment.
- The system cannot generate a report documenting when a fee has been altered or deleted.
- The current reporting process does not track finalized permits with outstanding balances.

These system weaknesses increase the risk that funds could be misappropriated and the loss not detected in a timely manner, if at all. The majority of these internal control weaknesses are due to the limitations of the software. Despite these inherent system weaknesses, the City's Internal Auditor has managed to establish strong internal control procedures over cash handling to help reduce the risk to the City. We recommend the City continue its efforts to address the control weaknesses noted.

Marshall Center – Internal Controls

Marshall Center is part of Parks and Recreation and is one of the City's decentralized cash receipting locations. The Center collects revenues of about \$330,000 annually for a variety of functions (community classes, swimming lessons, senior trips, various community functions, and so on). The City established a new receipting and tracking software system in March 1999. Our past experience with the Marshall Center has found weak internal controls, specifically in regard to cash handling. We performed detailed testing during the current audit and noted the following:

- The system can be manipulated to adjust accounting records. Our review disclosed that cashiers were altering the cash and check composition of payments received in order to cash personal checks out of cash receipts. This violates City policy and state laws on depositing public funds intact.
- We found that system passwords were not kept confidential or changed periodically.
- The custodian of the refund imprest fund also had cashiering duties, which are incompatible duties. Adequate managerial oversight and supporting documentation would be compensating controls. However, our review noted inadequate monitoring by Marshall Center management.
- The new tracking and receipting system provides automated training to teach new cashiers how to use the system. Our review noted that access to this training is not restricted or monitored. The documentation (cash receipts) generated from the training is identical to that of the regular system. This creates a risk that cash receipts could be generated from this system and used for fraudulent purposes.

We recommend the following:

- Personal checks should never be cashed out of receipts. All receipts need to be deposited intact.
- Access passwords should be changed periodically.
- Marshall Center management should monitor refunds for propriety, authenticity and support documentation.
- The computer system should restrict the creation of receipts out of the trainer database.

Cash Receipting – Tennis Center

During our review of some of the City's decentralized cash receipting locations, we performed audit procedures over cash handling at the City's Tennis Center. The Tennis Center receipts about \$500,000 annually. Our review noted internal control weaknesses and cash handling and receipting procedures that could be improved at this location. Good internal controls are essential to safeguard assets and to reduce the risk of loss, particularly with high-risk assets such as cash and checks.

Through our review we identified some areas that could be improved.

- Cashiers should correctly fill out the revenue summary report and report overages and shortages. Employees need to be aware of proper procedures for reporting these situations.
- Check/cash composition should always be indicated on the cash receipt. Care should be taken when ringing in transactions to ensure proper method of payment is indicated.

We appreciate the efforts of City management to take immediate action to address the issues disclosed in this management letter.

P.O. Box 1995
Vancouver, WA 98668-1995



www.ci.vancouver.wa.us

September 6, 2001

Jasen McEatheron, Audit Manager
Washington State Auditor's Office
12009 NE 99th St, #1460
Vancouver, WA 98682-2453

Mr. McEathron:

This letter is in response to your management letter points communicated to the City for the audit period January 1, 2000 through December 31, 2000. We would like to take this opportunity to thank you for your comments and the continued professional relationship with the Washington State Auditor's Office. These recommendations are taken and acted upon with the highest level of priority. The City is taking the following action in areas referenced:

Public Works Contracts:

Background – The City had a development agreement in place that called for the developer to construct certain street improvements. At the same time, City staff held discussions with stakeholders that resulted in modifications to the street design that added two additional turn lanes to accommodate expected traffic volumes. The City had funding available for the modified improvement, but the project was not scheduled to be completed for two years. The City's agreement with the developer to construct the modified street improvement was motivated by the ability to complete the full improvement ahead of schedule, the ability to eliminate the danger associated with incomplete street improvements and the enhanced public convenience of having one construction cycle.

This developer payment is part of a \$26 million corridor project and a \$7 million project. The amount authorized was supported by original estimates provided by the developer's engineers and approved by the City engineers. The amount paid was based upon actual quantities of work completed that was calculated, measured and inspected by the City, while being built to city standards. Prevailing wages were also paid for the City's portion of the work completed.

Action -- The City has re-communicated its policies and procedures along with state law requirements to Transportation staff. Transportation has agreed to ensure full compliance in the future. The City is in the process of reviewing and updating city code, policies and procedures regarding contracting for efficiency and effectiveness. An internal review will be conducted to assess compliance with the actions taken to address the management letter points. Finally, the City is in the process of implementing a new business information system which will enhance contract tracking.

Internal Controls over Permit Processing:

The City continues to work on improving internal control procedures over permit processing including working with the software vendor. Reports have been or are being developed to monitor fees charged for permits. The City has reviewed and deleted anonymous logins or put in other controls to address this concern. The auto-numbering feature now can only be over-ridden by two City employees. Additionally, the City is working to develop security for deleting or altering permit fees by using a computer log file. The city is currently implementing a report to track permits issued with balances owing. Also, the City considers the building inspectors to be a compensating control. Inspectors review permits prior to a field visit to ensure all fees are paid.

Marshall Center – Internal Controls

The City has distributed a cash-handling manual to all Parks and Recreation cashiers in effort to communicate the policies and procedures of the City. The City has requested that staff using the recreation receipting system change their passwords. Additionally, the City is working with the database administrator to implement a system requirement that passwords be updated periodically. City policies require managers to monitor refunds for propriety, authenticity and support documentation. The City will include wording that the receipt document that is NOT a receipt, but only an internal training document.

Cash Receipting – Tennis Center

The City continues its efforts to train and monitor employees regarding proper cash handling procedures which include correctly completing the revenue summary report and accounting for overages and shortages. The cash handling procedures manual has been distributed to all Tennis Center cashiers and is available to all cashiers electronically on the City intranet. The city management and especially the Tennis Center's management take this recommendation very seriously. Tennis Center staff will take care to ensure that all transactions include the correct composition of cash or check. Management is committed to ensure that the strongest internal controls are in place over cash handling and receipting.

The City has made significant improvements and effort to address these management letter points. We hope the above comments provide an overview of the actions we are taking to address each area of your recommendations. Thank you again for your assistance in making these changes. Please contact me if you have any further questions.

Sincerely,

Linda Gellings, CPA
Accounting Manager

MANAGEMENT LETTER POINTS

MGMT
LETTER

Police Alarms Program

The Police Alarms Program administers billings and collections for false alarm calls for both Clark County and the City of Vancouver. For 1999, the revenue generated from this program was over \$100,000.

During our review of this program we found that for most of 1999, one individual had exclusive responsibility over the billings, collections, posting of payments and account adjustments, with almost no independent review or monitoring performed. Additionally, there was inadequate documentation to support the \$7,595 written off during 1999.

Revenue from late fees and penalties decreased from \$6,585 in 1998 (City and County combined) to \$1,060 in 1999, primarily because the fees and penalties were not billed.

Through our review we identified some areas that could be improved.

Segregation of Duties – the duties of billing for alarm permits and false alarms, receipting of payments, recording transactions and processing account adjustments should be segregated so that no one individual has sole control over an entire transaction.

Adjustments – all adjustments should have adequate supporting documentation as well as an independent review, monitoring and documented approval by a supervisor

Billings – we recommend enacting formal procedures for processing the billings. Properly designed procedures would assist the City in ensuring public resources are collected timely and properly safeguarded.

Control Account – accounts receivables and receipts should be routinely balanced to a general ledger control account. A control account will help provide verification that billings, payments and account adjustments have been properly recorded in customer accounts.

The City's Finance staff and Internal Auditor immediately took steps to address the segregation of duties issue. We recommend the City continue to review the program to address the remaining issues.

Official's Salary Increases

The City established an independent salary commission through the City charter process. The salary commission as authorized, approves and sets council salaries using a "like"

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city ordinance format. The City Council members received a pay increase on January 1, 1999 from \$750 to \$1050 per month.

The Washington State Attorney General's Office indicated that the City cannot delegate its ordinance authority to another body such as the salary commission, and under state law for cities of this class, salaries must be set by ordinance. Therefore the City does not have statutory authority to provide council salary increases using this method.

Additionally, the Washington State Constitution prohibits officials from availing themselves of an increases initiated during their term of office. Rather, they must be reelected before they can obtain the increase in pay.

City officials disagree with this position but intend to reintroduce legislation in the next legislation session that explicitly authorizes cities to use an independent "salary commission" to set officials salaries.

We recommend the City refrain from using this method to establish council salaries until the law is changed.

Payroll Internal Controls

Salary Step Zero Use - This pay step is used to establish pay rates for staff when salaries do not fall in previously established payroll schedule steps. The use of this process bypasses the internal controls in place in the payroll system and has been addressed by the State Auditor's Office in a Management Letter for the last three audits (1996, 1997, and 1998).

Temporary employees, in particular, are set up as salary step zero and are not assigned an earnings code with a designated pay rate by Human Resources. Instead, they can be paid at any earnings code, at the discretion of their manager. Additionally, there are four earnings codes that do not have a pre-determined hourly rate but instead require the employee to write the hourly pay rate on the timesheet. Department management reviews and authorizes the timesheets, but should the manager not notice an error, the system will allow the employee to be paid at the incorrect rate. We found pay rates ranging up to \$44 an hour that were established using this method.

Temporary employees are not removed from the system timely. We found instances of temporary employees still on the system as long as three years after the date of the last paycheck.

The City should implement internal controls to ensure all payments made at this step include 1) proper authorization, 2) communications to payroll supporting rates of pay, and 3) a monitoring system for payments made by this method to eliminate duplicate or improper payments, and 4) that ex-employees are removed from the system timely.

Draft - Not A Public Document

Decentralized Cash Receipting

The City had approximately 14 decentralized cash receipting locations in 1999. We selected the following sites for review: City Hall customer service center, Brookside Utilities, Marshall Center, Tennis Center, Bagley Center, Water Resources Education Center, Fire Station #81, Operations Center. Our review noted internal control weaknesses and cash handling and receipting procedures that could be improved at these locations. Good internal controls are essential to safeguard assets and reduce the risk of loss, particularly with high-risk assets such as cash and checks.

Through our review we identified some areas that could be improved.

Cash receipting and depositing systems should require: 1) *Timely Deposit* – funds should be deposited daily, 2) *Restrictive Endorsement* – all checks should be restrictively endorsed, 3) *Receipting* – funds should be receipted when collected, 4) *Accounting for Receipts* – logs of receipt numbers or cash register control numbers should be maintained and monitored for completeness, and balanced to the daily deposits.

The City is currently in the process of reviewing and updating its cash handling procedures. We recommend the City policy include control procedures to eliminate the conditions cited above. We also recommend the City periodically monitor remote cash locations and ensure the new policies are followed.

We appreciate the efforts and improvements made thus far by the City to address these issues. We also look forward to working further with the City to provide training and workshops to assist in improving the controls and safeguarding assets.

1998
Mgmt
Letter
(P. 1 of 2)**MANAGEMENT LETTER POINTS**City Council Salary Increases

During our examination of city council salary increases, we noted two issues. The City established an independent salary commission through the city charter process, which was approved by the vote of the citizens. The salary commission as authorized approves and sets council salaries using a "like" city ordinance format. The first issue noted during our audit is that the Washington State Attorney General's Office indicates the City cannot delegate its ordinance authority to another body such as the salary commission, and under state law for cities of this class, salaries must be set by ordinance. Therefore, the City does not have statutory authority to provide council salary increases using this method. Second, the Washington State Constitution prohibits officials from availing themselves of an increase in pay initiated during their term of office. Rather, they must be reelected before they can obtain the increase in pay. We recommend the city review this process for setting elected official's salaries and address the statutory authority issue.

Payroll Controls

When salaries do not fall into previously established payroll steps, the city uses a "step zero" feature. Using this exception pay step bypasses the internal controls in place in the payroll system. The city should implement internal controls to ensure all payments made at this step include 1) proper authorization, 2) communications to payroll supporting payments, 3) a monitoring system for payments made from this payroll step to eliminate duplicate or improper payments. The city should review its use and strengthen its controls over step zero payments.

Internal Controls Over Computer Access

The city should improve controls over computer access. We noted during the audit several weaknesses in password internal control procedures. Also, the city has not developed an electronic data policy (EDP) that establishes guidelines and procedures for employees to follow. We recommend the city review its password procedures and develop an EDP policy.

Other Internal Controls Over Computer Software

The city could enhance controls by improving processing and software features of various software systems. For example, we would suggest the following: 1) The accounts receivable system should electronically interface with the general ledger and cash receipting systems to minimize the risk transactions of improperly recorded transactions. 2) The accounts payable system should provide for an invoice number, date and amount of the original invoice. The city's current system does not provide this basic information which could greatly assist the city in preventing duplicate payments. 3) The current building permit system should reconcile daily to the cash receipting system ensuring only accurate information is posted to the general ledger system. 4) The payroll

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memo LETTER
(Page 2)

system processes transactions in a cumbersome and complicated manner increasing the risk errors or irregularities will occur and go undetected. 5) The purchasing system should allow the city to encumber purchase orders and contracts in a manner to track partial payments to assist in reducing the risk of over payments. 6) The Equipment Rental and Replacement system should electronically interface with accounts payable and vehicle maintenance systems. Additionally, this system should maintain detail costs by individual pieces of equipment.

Equipment Rental Fund

The city does not establish rental rates for individual pieces of equipment rented by its various funds and departments. Instead, departmental charges made to the renting departments are based on prior year departmental charges, plus a four percent annual increase. Additionally, during 1998 this amount was increased by over \$1.8 million to help cover rental costs and provide the future reserves necessary to fund equipment purchases.

RCW 35.21.088 requires the city legislative authority to fix reasonable rental rates. We believe, based on common practice at other cities and municipalities, the city would benefit from the establishment of variable equipment rates, based on the cost of purchase, operation, repair and other operating costs of the individual items of equipment. Such a rate structure would provide departmental managers better cost information and sound, documented, justification for the charges made to each department. One of the problems with the city's current method, in use since 1996, is that it does not provide an accurate accounting of departmental costs, and allows departments and funds to be over/under charged. This is a particular concern, since this practice could result in the city violating RCW 43.09.210, which prohibits one fund from benefiting at the expense of another fund. Another concern is that this practice could result in federal grantor's rejecting costs accumulated and charged under this method.

We recommend the city account for costs of purchase, operation and maintenance, and replacement of individual pieces of rental equipment, and charge departments for only those specific pieces of equipment used by the department. Once the costs are known for individual pieces of equipment, rates should be proposed by accounting staff, and approved by the city council as envisioned in RCW 35.21.088.

We appreciate the efforts and improvements made thus far by the city to address these issues. We also look forward to working further with the city to provide training and workshops to assist in improving controls and safeguarding assets.

**City of Vancouver
Management Letter
For the Audit Period End December 31, 1997**

During our audit of the City of Vancouver, we noted internal controls over both processing transactions and compliance requirements that should be enhanced or strengthened.

1. Billings And Accounts Receivable Systems

As communicated in a 1996 audit finding, the city has several separate departmental billing systems currently in use which generate invoices for a multitude purposes. Tracking and monitoring of these systems is weak which increases risk of errors and irregularities. The number of billings has rapidly increased as a direct result of the recent, large annexations. The city does not have an integrated computerized billing and accounts receivable system. We recommend the city continue in its work to upgrade the billings and accounts receivable system.

2. Accounting and Capitalization of Fixed Assets

In our previous 1996, we recommended that the city should establish procedures for capitalizing assets as required by accounting standards. Again for the year ended 1997, work-in-progress amounts in excess of \$4 million were not properly capitalized in the Water/Sewer Fund. Because these transactions were not recorded as fixed assets, the financial statements could not be prepared accurately. The necessary changes to the financial statements were made at our request.

We encourage the city to review work-in-progress costs monthly to ensure only the proper expenditures are captured. Both in 1997 and 1996, this account included cost which needed to be expensed. Also, all projects should be reviewed monthly for completion status and capitalized immediately in order to properly record depreciation expense. This will provide more accurate information for management decisions, along with accurate financial statements.

3. Payroll Internal Controls

The city should review payroll practices.

Salary Step Zero Use - This pay step is used to pay staff when salaries do not fall in previously established payroll schedule steps. The use of this exception pay step bypasses the internal controls in place in the payroll system. The city should implement internal controls to ensure all payments made at this step include 1) proper authorization, 2) communications to payroll supporting payments, 3) a monitoring system for payments made from this payroll step to eliminate duplicate or improper payments. The city should review its use of the step zero in the new payroll system.

Written Policies For Exempt Employees - Per city policy departments are required to establish guidelines to ensure fair and equitable application of variable work hours. Our office received concerns regarding improper use of variable work hours. We recommend these guidelines be documented in writing by each department.

4. Cash Receipting & Depositing

During our review, we noted internal control weaknesses over cash receipting and depositing at various areas. Good internal controls are essential to safeguard assets and reduce the risk of loss especially with high risk assets such as cash and checks. As more cash receipting locations are added by the city, proper internal controls must be included. Cash receipting and depositing systems should require: 1) all checks are restrictively endorsed, 2) all funds are receipted when received, 3) deposits are made timely - daily unless otherwise established by written policies and procedures, and 4) logs of receipt numbers or cash register control numbers are maintained including the date and amount deposits. We recommend the city implement review procedures of activities at all locations.

5. Software Internal Control Weaknesses

The city could improve the software controls. We suggest the following: 1) Parks department class registration system should interface with the cash receipting system; without this interface the city increases the risk transactions will not be recorded properly. 2) The accounts payable system should enable input number, date and amount of the original invoice. The city's system does not allow for this basic information. Without this basic information, duplicate payment review is difficult at best. 3) The cash receipting system should allow for correction of incorrect entries before posting entries, ensuring only accurate information is posted to the general ledger system. 4) The payroll system processes transactions in a cumbersome and complicated process which increase the risk errors or irregularities will occur and go undetected. 5) The purchasing system should allow the city to encumber purchase orders and contracts in a manor to track partial payments. Short of good infrastructure, the city experiences unnecessary costs and incurs opportunity costs such as slower cash flows, decreased investment balances, and thereby, decreased revenues to city funds.

We appreciate the efforts and improvements made thus far by the city to address these issues. We also look forward to working further with the city to provide training and workshops to assist in improving the controls and safeguarding assets.

1996
Findings

Schedule Of Findings

1. The City Of Vancouver Should Improve Controls Over Its Billings And Accounts Receivable Systems

Apart from the utility billing and receivable system, the city has several separate departmental billing systems currently in use which generate invoices for a multitude of services. Many of these systems have unique subsystems which increase risk and complicate monitoring, interdepartmental communications, and internal controls. The number of billings is rapidly increasing as a direct result of the recent, large annexations. During 1996, the city received payments in excess of \$4 million from the miscellaneous invoices system alone. The city does not have an integrated computerized billing and accounts receivable system. This finding addresses the weaknesses and risks associated with these separate departmental billing systems.

a. Billing Invoices

Because of the decentralized nature of the billing process, the city has problems accounting for all of the invoice stock, ensuring the sequential use of invoices, controlling voided invoices, monitoring supervisory transaction approval, and even enforcing the use of official invoices by all departments.

By having numerous departments prepare billings, the city sacrifices efficiency and increases the risk that not all charges are properly billed and collected.

b. Segregation Of Duties

There is an inadequate segregation of duties in the Citizens Service Center which is the primary accounts receivable collection point. The same employees who have responsibility for collecting customers payments also void billings and turn accounts over for collection. Supervisory review of accounts receivable activity is not performed timely in order to detect possible errors, omissions, and irregularities.

c. Control Account

The city does not use a control account for some of its accounts receivable. Consequently, it is unable to independently verify whether these issuances, payments, and adjustments are accurately recorded and properly authorized. This portion of the accounts receivable is not recorded on the city's accounting records or reported in its financial statements. It was not possible, without increased audit costs, to ascertain this balance at the report date of December 31, 1996. However, we estimate it to be approximately \$1.9 million

for all fund types. The lack of a control account increases the risk that errors, omissions, and irregularities could occur and not be detected.

d. Adjustments

Adjustments to invoices are made by cashiers, departmental billings clerks, and city departments without adequate documentation or approval. We noted instances where voids to customer billings were made without any documentation and without the knowledge of managers. Because no formal citywide system exists, controls over adjustments vary among the departments and increase the risk of errors, omissions, and irregularities occurring.

e. Collections

Collections procedures are not consistently applied in the city accounts receivable systems. The city has no written policies and procedures for accounts receivable write-offs. The systems in place do not enable employees or managers to review accounts efficiently.

The city's collection efforts are limited and most accounts are eventually turned over to a collection agency. Most receivables accrue no late charges or interest if an account is past due. Without timely or consistent reviews, errors or irregularities may not be detected.

f. Monitoring Procedures

None of the systems addressed in this finding provide management with appropriate information such as computerized billing statements, outstanding accounts receivable balances, aged accounts receivable reports, or access to detail billing information to adequately review billing and collection activity. System monitoring and review are essential to ensure collections are maximized and errors, omissions, and irregularities are minimized.

Inadequate compensating controls and the lack of well defined policies and procedures contributed, in part, to system weaknesses. In addition, the city's rapid growth has long since outstripped the system's ability to properly control and account for the billing and receivable activity.

We recommend the city upgrade the billings and accounts receivable system to include the following:

- a. Implement a citywide accounts receivable/billing system that is integrated with all appropriate financial systems.
- b. Segregate cash receipting duties to ensure that the person collecting funds cannot perform any other part of the transaction.
- c. Establish a control account for all receivables to ensure all transactions are accurately recorded and properly authorized.
- d. Establish policies and procedures to ensure that all adjustments are adequately documented and properly approved.

- e. Implement collections policies and procedures to ensure moneys are collected timely.
- f. Generate timely and meaningful reports reflecting the entire system activity for management use.

Auditee's Response

We agree with the recommendation that the City needs to take action to further address the weaknesses and risks identified within the billings and accounts receivable system. Because the City has not had an integrated computerized accounts receivable system, we recognized the need for and did establish compensating controls to minimize risk. However, management has not applied and monitored these procedures in a consistent manner. With the added demands from recent growth, existing controls need to be more formalized, clearly communicated and consistently reviewed for compliance in order to improve the billings and accounts receivable processes and minimize risk. Action has been or will be taken immediately to strengthen the billings and accounts receivable system.

Auditor's Concluding Remarks

We appreciate the city's commitment to resolve the internal control weaknesses discussed in our report. We will review management actions taken during our next regularly scheduled audit.

City of Vancouver
Management Letter
For the Audit Period End December 31, 1996

Copy of
1996 management
letter

1. **Accounting and Capitalization of Fixed Assets**

The city should establish procedures for capitalizing assets as required by accounting standards. For the year ended 1996, work-in-progress amounts in excess of \$48,000,000 were not properly capitalized in the Water/Sewer Fund. Because these transactions were not recorded as fixed assets, the financial statements could not be prepared accurately. The necessary changes to the financial statements were made at our request. These changes affected net income by \$2,929,082 causing a net loss to the fund of \$1,606,866.

Beyond a restatement of the financial statements, the city cannot plan for bond sales, rate changes, and other issues without accurate information. We encourage the city to review work-in-progress costs monthly to ensure only the proper expenditures are captured. Also, all projects should be reviewed monthly for completion status and capitalized immediately in order to properly record depreciation expense. This will provide more accurate information for management decisions.

2. **Marking and Licensing Vehicles**

The city should ensure vehicles are properly marked and licensed. We noted several improperly marked cars and one improperly licensed car. In one instance, license plates were purchased through a car dealership which avoided obtaining an exempt plate. We encourage the city to develop a good control environment and procedures to ensure cars are properly marked and licensed.

3. **Payroll Internal Controls & Pay Increases**

The city should review payroll practices.

Salary Step Zero Use - This pay step is used to pay staff when salaries do not fall in previously established payroll schedule steps. The use of this exception pay step bypasses the internal controls in place in the payroll system. The city should implement internal controls to ensure all payments made at this step include 1) proper authorization, 2) communications to payroll supporting payments, 3) a monitoring system for payments made from this payroll step. The city should review its use of the step zero in the new payroll system.

Pay Increases - Documentation supporting payroll increases should be developed and filed at the time of the increase for good internal control. During our testing, we found instances of pay increases given effective the first of the month based on support dated in the middle or end of the month. This practice exposes the city to risk of noncompliance with state laws prohibiting retroactive pay increases. City staff processing payroll should be aware of retroactive pay compliance requirements and should ensure compliance. We recommend the city strengthen documentation requirements for payroll increases.

4. Cash Receipting & Depositing

During our review, we noted internal control weaknesses over cash receipting and depositing at the Marshall Center, Citizens Service Center, and City Hall. Good internal controls are essential to safeguard assets and reduce the risk of loss. Cash receipting and depositing systems should require: 1) all checks are restrictively endorsed, 2) all funds are receipted when received, 3) deposits are made timely - daily unless otherwise established by written policies and procedures, and 4) logs of receipt numbers or cash register control numbers are maintained including the date and amount deposits. We recommend the city review activities at these locations and improve procedures.

5. Software Internal Control Weaknesses

The city could improve the software controls. We suggest the following: 1) Marshall Center class registration system should interface with the cash receipting system; without this interface the city increases the risk transactions will not be recorded properly. 2) The Equipment Rental & Revolving system should accumulate information to properly charge departments for costs related to individual vehicles. 3) The cash receipting system should allow for correction of incorrect entries; ensuring only accurate information is posted to the general ledger system. We encourage the city to review internal controls in its software.

CITY OF VANCOUVER
Clark County, Washington
January 1, 1994 Through December 31, 1994

1994
Findings

Schedule Of Findings

1. The City Of Vancouver Should Improve Controls Over The Parking Ticket System

The city issued in excess of 10,000 parking infractions from January 1, 1995, through March 28, 1995, with fines ranging from \$5 to \$32. Our examination of the system for issuing and recording tickets, and collecting fines on these infractions revealed the weaknesses discussed below. Because of these weaknesses, we were unable to determine that all fines which should have been collected were collected, or whether all cash received from parking tickets was properly deposited.

a. Inadequate Segregation Of Duties

We found inadequate segregation of duties, in part, because the same individual in charge of the parking system, collects parking fines, records payments, and approves dismissals. No one individual should have complete control over an entire transaction. Without this separation, money from parking fines can be misappropriated and the records altered to conceal the loss.

b. Ticket Accounting Incomplete

The city issues parking tickets both manually and electronically. Our review of the manually prepared parking tickets disclosed several problems. For example, ticket books are not properly assigned or used in order, violation codes sometimes do not agree with the penalty amount, and a file copy of the ticket does not exist. In addition, because some ticket numbers cannot be accounted for, we were not able to determine whether these transactions were properly recorded or that any fines from these transactions were deposited.

c. Ticket Control Account Not Used

The city does not use a control account for monitoring parking ticket infractions issued. Consequently, the city is unable to verify whether all ticket issuances and payments are properly recorded or whether adjustments are properly authorized. Additionally, the city was not able to provide an accurate listing of all parking tickets outstanding at the time of our audit.

d. Ticket Dismissals Not Properly Documented

During the period of our examination, the total fines and/or penalties for several hundred parking infractions were dismissed or modified by a number of city employees, some without proper authorization to make ticket adjustments. Adequate documentation to support these modifications was often not retained, making it impossible for us to determine if the correct fines or penalties were

paid. For example, our tests discovered many dismissals described as "... paid with arrangements ..." or "... paid \$10 ..." with no description or documentation indicating why the arrangements were made, or why a higher fine was not paid. These dismissals are not reconciled to the parking ticket system, nor do the reasons for dismissal always fall within the city's written policy.

e. System Access Controls Weak

We discovered 17 different employees who have unlimited access to the parking system allowing them to add, change or delete records. Many of these employees no longer work in this department or have responsibilities in this area.

f. Receipts Not Issued For Individual Tickets

When payments are received through the mail or made in person, city cashiers do not immediately prepare a prenumbered treasurer's receipt. Rather, these payments remain unrecorded in the cashier's drawer until each cashier closes out at the end of the business day. At that time, a single treasurer's receipt is prepared for the entire day's ticket collections.

g. No Follow-up For Tickets Remanded To Court

The city does not track the disposition of the tickets remanded to court. For example, when the court imposes, alters, or dismisses a fine on a city parking infraction, no recording is made in the city's parking system. The transaction simply remains recorded as 'C' for court, without being reconciled to cash received. The system for tracking ticket dispositions from the court is an important control to preclude misappropriation of fine revenue. The system must be designed to ensure the city receives the correct amount of fines ordered by the court for all tickets.

Most of these weaknesses resulted from inadequate policies and procedures for controlling the parking ticket system, rather than the failure of employees to follow established procedures.

In each of the last three years, the city has received over \$250,000 in parking fine revenues. Much of these revenues was paid in cash. Without proper controls in place, the city exposes public funds to a significantly higher risk that errors and irregularities could occur and not be detected in a timely manner and further increases the risk of loss, misuse or abuse. However, we did not find any evidence that fraud or abuse of the system had occurred during the period audited.

We recommend the following controls be implemented:

- a. Duties should be segregated so no one employee has complete control over an entire transaction.
- b. All ticket numbers need to be accounted for sequentially, including voided transactions. A file copy of all manually issued tickets also needs to be retained.
- c. A control account should be implemented to verify and control all issuances, recordings, and adjustments of parking tickets.

- d. Procedures over dismissed tickets need to be improved as follows:
- (1) Proper documentation should be retained for all modification or dismissal of fines.
 - (2) Only authorized individuals should approve modification or dismissals.
 - (3) City policy should be updated to better reflect under what specific circumstances dismissals or modifications will be allowed. Dismissals and payments should be separately identified in the parking system. The current system codes both as 'D'.
- e. Access to the parking system should be limited to employees who have parking system responsibilities. Access should be further restricted according to specific duties.
- f. All parking tickets should be promptly receipted, and two individuals should verify payments received by mail to ensure completeness of parking ticket revenues.
- g. Tickets remanded to court need to be reconciled with what is recorded in the parking system. The city should also record the court resolution of each parking infraction.

Auditee's Response

- a. *Duties relating to posting of payment and dismissals have been turned over to employees not involved in the receipting of payment or the dismissal of infractions.*
- b. *The new RADIX parking ticket system automatically issues the next number in sequence by parking enforcement officer. The only difficulty are the hand tickets issued by the police department. The officers will issue a couple of tickets a week, with different ticket books issued to different officers. Issuing in sequence is currently impossible. However, better methods of controlling the tickets can be devised and will be tried in order to provide the best control.*
- A file of all voided tickets issued by the police department is being maintained by customer service personnel.*
- c. *Within our ability to control the issuance, recording and adjustment to parking tickets we will implement a control account. However, our ability to balance and maintain a meaningful control account is subject to the amount of information available from the District Court.*
- d. *Policies and computer programs are currently being reviewed for modification per the above suggestions.*
- e. *Computer programs and access list are being looked at in order to provide additional security as requested above.*
- f. *Procedures have been modified to assure prompt receipting of ticket payments.*
- g. *The above recommendation will be impossible to meet unless District Court reporting procedures are changes. At the time of collection by the Court, the proceeds are simply*

credited to an account for each issuing jurisdiction. Revenues to the city are reported to us lump sum with no schedule of specific ticket numbers nor amounts paid on each. We have been successful in past attempts to obtain the necessary information.

2. The City Of Vancouver Should Improve Controls Over Billings To Customers

The city bills customers for a variety of miscellaneous services, some of which include rentals, recreation classes, and building permits. The billing process for these services is decentralized, therefore, many city departments prepare their own individual invoices for these services. According to city records, at least 1,300 invoices were issued to departments for billing purposes from September 1993 through February 1995. We examined this system and found the following weaknesses:

a. Weak Segregation Of Duties

The same employee who has responsibility of collecting customers payments also prepares and records city treasurer's receipts for these same payments.

b. Inadequate Invoice Control

Our examination of the invoicing process revealed problems in the following areas:

(1) Invoice stock is not signed out to individual departments.

(2) Voided invoices are not retained or accounted for to help ensure the numerical integrity of the invoice number sequence.

(3) Overall sequential use of invoices is not monitored. During our testing, we discovered 96 missing invoices. City officials could not satisfactorily explain why the invoices were missing. As a result, we were unable to determine whether accounting was proper for these transactions. Additionally, several invoices were voided and reissued for the same service. We discovered one case, which was unknown to city officials, where a customer double paid for services because the city had inappropriately issued two invoices for the same service. None of these transactions were approved by a supervisor.

c. Receivables Control Account Not Used

The city does not use a control account for miscellaneous billings. Consequently, the city is unable to independently verify whether issuances, payments, and adjustments are accurately recorded and properly authorized.

d. Miscellaneous Accounts Receivable Not Reported

The total amount of these miscellaneous invoices owed the city are not recorded or reported on the city's financial statements. It was not cost effective for us to ascertain the exact amount of these receivables at the December 31, 1994, financial statement date. However, city staff determined that the balance was \$104,796, at May 12, 1995. Moreover, based on the audit procedures performed, we concluded that the failure to report these assets did not materially misstate the city's accounts receivables balance at December 31, 1994.

e. Unauthorized Adjustments Of Accounts

Adjustments are made to invoices by city departments without adequate documentation or approval, and amounts written off as uncollectible do not receive council approval. We discovered one invoice adjustment which reduced by \$625 the amount owed by a customer. This adjustment was made without proper supporting documentation or approval by a supervisor.

f. Inadequate Policies And Procedures For Miscellaneous Billings And Receivables

The city does not have adequate written policies and procedures in place for effective operation, control, and management of this system.

Most of these control weaknesses were apparently caused by the lack of well defined policies and procedures.

According to city staff, in one month during calendar year 1994, payments were received in the amount of \$11,332, in another month \$47,529, on miscellaneous invoices of the type described. The lack of proper controls places public funds at risk and increases the possibility that errors or irregularities may occur and not be detected in a timely manner.

We recommend the following controls be implemented:

- a. Duties should be segregated between those receiving and recording payments.
- b. All invoices should be sequentially accounted for including voids.
- c. A control account needs to be implemented to verify and control all issuances, recordings, and adjustments to invoices.
- d. The city should recognize these miscellaneous accounts receivable on its financial statements.
- e. All adjustments to invoices should be approved by a supervisor and include adequate back up documentation.
- f. The city needs to develop policies and control procedures regarding these service billings.

Auditee's Response

- a. *Duties have been segregated. Payments received are receipted by the customer service personnel. If an account needs to be credited, the TR document is forwarded to the appropriate person for posting.*
- b. *A log of all invoices signed out to departments is being developed as well as procedures for periodic follow-up and tracking individual invoices.*

Invoices listed as outstanding in the log will be periodically cross checked to the supply of invoices held by the departments and in the pending file at the customer service counter.

- c. *A control account will be established to record outstanding miscellaneous receivables in the appropriate funds.*

- d. *Miscellaneous accounts receivables will be recognized on the financial statements where appropriate.*
- e. *As part of the procedures all voided invoices will be returned to the finance department. If voided before going to the customer, all copies will be returned. If voided after being sent, a reason for the void will be documented and authorized by a supervisor. Any changes to an invoice (addition or subtraction) will also be authorized by a supervisor.*
- f. *Policies and control procedures will be developed as a part of the development of the above.*

Auditor's Concluding Remarks

We appreciate the city's prompt response to these audit issues and the courtesies extended during the course of the audit process. We will review management actions taken during our next regularly scheduled audit.

CITY OF VANCOUVER
Clark County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. The City Should Enforce Contract Provisions And State Laws Regarding Tennis Professionals

The City of Vancouver retains its tennis center manager on city payroll and has two full-time tennis professionals it considers independent contractors. Our review of tennis center activities disclosed several violations of the manager's employment agreement, and numerous violations of state laws:

- a. During 1993, Tennis Center Manager, Anil "Jumbo" Fernando was compensated \$32,652 through the city payroll system for managing the tennis center. Paragraphs four and five of his agreement with city Parks and Recreation Department Director, Daniel George, state in part:

In consideration for your fulfilling your responsibilities as a manager for 40 hours each week, you will be employed . . .

. . . Additionally, you will be allowed 15 hours per week of non-prime tennis court use to teach private lessons . . . Payment for this private instruction shall be made directly to you and not pass through the city. I will require, however, that each week you submit to me a list of the names of those persons who you instructed privately and the date and time of their lesson. . .

Instead of limiting his private lessons to 15 hours during nonprime hours, Mr. Fernando routinely taught private tennis lessons at the Vancouver Tennis Center during his normal 7:00 a.m. to 1:00 p.m. Monday through Friday work week. He retained all of the revenue from these lessons. Additionally, Mr. Fernando said he did not keep the list of names, dates, and lesson times of persons privately instructed during 1993, nor did he submit them weekly to Parks and Recreation Department Manager, Daniel George, as required. Without this information, we were unable to determine the amount of any revenue inappropriately kept by Mr. Fernando from lessons given on city time. Further, because he was teaching private lessons nearly all the time he was present at the center, it is evident Mr. Fernando did not devote the 40 hours per week in management of the tennis center required by his agreement.

- b. From February 4 through February 11, 1994, the two contracted tennis professionals, Kevin Young and Hector Mendosa were in Hawaii providing lessons for a private tennis camp sponsored by Anil Fernando. The city did not receive any revenue from this camp. Mr. Fernando approved and submitted

falsified documents requesting city payment for lessons purportedly given by Mr. Young and Mr. Mendosa at the city tennis center while they were actually teaching at his private tennis camp in Hawaii. As a result, Mr. Fernando, as camp sponsor, benefited financially from the services of Mr. Young (\$674.18) and Mr. Mendosa (\$751.20) who were paid by the city during this time.

Mr. Fernando prepared, approved, and submitted the payment requests on February 28, 1994, knowing that neither Mr. Young nor Mr. Mendosa performed service for the city during the period February 4 through 11, 1994. Mr. Fernando's preparation and approval of the false payment requests for Mr. Young and Mr. Mendosa violated RCW 42.24.110, which states:

Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he shall be civilly liable on his bond to the municipal corporation or political subdivision, as the case may be, for the amount so paid or for three hundred dollars whichever is the greater.

- c. Anil Fernando obtained advances for Hector Mendosa and Kevin Young and a bonus for Mr. Young by falsifying claims he submitted to the city.

(1) Mr. Fernando arranged for advances to contractors Mr. Mendosa and Mr. Young of \$400 and \$500, respectively, in February 1994 by submitting time reports for lessons not yet given. Advances of public funds are prohibited by the Washington State Constitution, Article VIII, Section 7, which states:

No county, city, town, or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in the aid of any individual . . . except for the necessary support of the poor and infirm

(2) Mr. Fernando obtained a \$1,000 bonus for Mr. Young in January 1994 by preparing and approving a false time report for some December 1993 services that either were not provided or for which Mr. Young had already been paid. This bonus is prohibited by Washington State Constitution, Article II, Section 25, which states in part:

The legislature shall never grant any extra compensation to any public officer, agent, employee, servant, or contractor, after the services shall have been rendered, or the contract entered into (Emphasis ours.)

Parks and Recreation Department Manager, Daniel George admitted he also was aware of and approved the bogus time report which allowed Kevin Young to receive the improper \$1,000 bonus. Therefore, Mr. George violated RCW 42.20.060, which states:

Every public officer, or person holding or discharging the duties of any public office . . . a part of whose duty it is to audit, allow or pay, or take part in the auditing, allowing or paying claims or demands upon the . . . city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or

payment of any claim . . . which is false or fraudulent . . .
shall be guilty of a gross misdemeanor.

- d. Documentation for payments made to Mr. Young and Mr. Mendosa during 1993 and 1994 consisted of time sheets which reported hours worked and rates charged for tennis lessons. They were paid through the city's voucher system instead of the regular payroll system. Our review indicates that neither the rates nor the hours used to calculate these payments were factual. Instead the amounts paid were actually based on the numbers and type of tennis lessons given during the period as calculated by tennis center manager, Anil Fernando. Mr. Fernando indicated that he did not retain the documents on which the payment amounts were actually calculated. These violations were the apparent result of the failure of both Mr. Fernando and Mr. George to adhere to the requirements of the employment agreement and to understand and follow Washington State laws pertaining to the operation of the tennis center.

We recommend:

- a. Mr. Fernando confine his private tennis lessons to the limits stated in his agreement with the city, and that he manage the tennis center the required 40 hours per week contained in the agreement.
- b. Mr. Fernando repay the city \$674.18 and \$751.20 paid to tennis professionals Kevin Young and Hector Mendosa for the time they were teaching at his private tennis camp in Hawaii.
- c. Tennis professionals Kevin Young and Hector Mendosa immediately repay any unpaid advances outstanding, and Kevin Young repay the bonus which he improperly received as a result of the false documents.
- d. The city ensure that parks and recreation manager, Daniel George, adhere to agreements and laws that pertain to his duties, and require any claims for tennis services rendered be paid only on fully supported, factual documentation. These supporting documents should be retained on file in accordance with the city's required retention policy.

Auditee's Response

We agree with the findings of the State Auditor's office that there were improper actions or inactions by employees of the Parks & Recreation Department. While the city does not condone or approve these actions or inactions in any way, we must point out that the events described in the auditor's report occurred without any criminal intent to divert public monies for personal gain. We must also point out that the affected city employees provided a full and candid disclosure of the facts to the auditors throughout the course of their audit.

We have and will address the findings by the following:

- *The contract with Mr. Fernando is being revised to clearly state expectations and simplify administration. He will be required to meet his contractual obligation of no less than 40 hours per week performing managerial activities on behalf of the city. Mr. Fernando will confine his private lessons to times other than when he is managing the tennis center. It should be noted that prime-time for public lessons and play at the center is from 4:00 pm to 9:00 pm.*

- *Kevin Young and Hector Mendosa have repaid the \$400 and \$500 advances made during the month of February. Effective July 1, 1994, Young and Mendosa are on the regular city payroll rather than contract employees. They will account for actual hours worked and be paid for those hours at an established rate of pay.*
- *During February 4 - 11, Young and Mendosa arranged for substitute instructors to teach lessons in their absence. A portion of the amount paid to Young was used by him to pay his substitute. We will require that Mr. Fernando repay the amounts identified in the finding, less the amount paid by Young to his substitute.*
- *Mr. George will be instructed that he is (1) to administer Mr. Fernando's contract strictly according to its terms, (2) to maintain proper documentation in support of payment for tennis services, and (3) to adhere to the requirements of state law and city policy.*
- *If innovative compensation methods are to be used, the city will formally adopt specific compensation policies, in advance, and will assure that they are allowable under state statutes. Because the bonus to Mr. Young was not paid in accordance with any established city policy, we will require that it be repaid.*
- *The finance department will be making periodic spot audits to ensure that contracts are being adhered to and that proper procedures and time-keeping are being followed and documented.*

2. The City Of Vancouver Should Control Parking Meter Revenue

The city has not established controls over parking meter revenue. As a result, cash deposited from parking meters is significantly less than the amount projected to be received. Based on historical collections and a meter rate increase in March 1992, our revenue projections exceed actual revenue by a minimum of \$172,674 for the period April 1, 1992, through December 31, 1993. Our analysis of the traffic and business environment did not provide sufficient explanation for this variance in parking meter revenue.

Based on their analysis, city officials believe the shortfall in parking revenue collections shown in our finding can be substantially explained by some meter customers moving to parking lots and others buying parking permits.

The following control weaknesses increase the risk that parking meter revenue has not been totally accounted for and controlled:

- a. The department management has not maintained control of the meter keys and are not sure how many exist or where they are located.
- b. Each collector of the parking meter revenue usually works alone.
- c. Each collector empties the coins into an unlocked container which is transported to the bank.
- d. Management has not specifically assigned the collectors to any particular collection zone, nor has it systematically rotated them between zones.
- e. Management has not periodically compared actual parking meter revenue to expected revenue.

- f. Management has not established a set schedule for the frequency of collections and deposits; therefore, the frequency is not consistent.

We recommend city review its internal controls for parking meter revenue, correct the weaknesses identified above, and implement an effective system of internal control designed to ensure the protection of public assets. According to officials, the city has begun implementing corrections for some of the weaknesses cited above.

Auditee's Response

The city acknowledges control weaknesses in collecting parking meter revenues, as outlined in the finding. However, we feel that our analysis of the entire parking program, using reasonable assumptions, effectively accounts for most of the variance in parking meter revenues.

We have or will take the following steps to improve controls:

- *Keys in possession of parking staff were collected and are now maintained under lock at the Citizens' Service Center. A log is being maintained when a key is checked out and back in and by whom.*
- *The collection containers are now locked and the bank has the only keys.*
- *We have initiated a regularized collection routine by date and zone so that revenues can (and will be) analyzed for unexplained variations.*
- *To the extent possible with limited staff, we will rotate employees from zone to zone. On an interim basis, the routes are being collected by two employees.*
- *We will propose during the upcoming budget process that, over the next four years, we replace the meter heads so each zone will have a different key. We will research the feasibility/cost of meter heads which provide greater protection of money and/or control features.*

Auditor's Concluding Remarks

We appreciate the city's prompt actions to correct problems cited in both findings. We will review the results of these corrective actions in our next audit.

CITY OF VANCOUVER
Clark County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The City Should Ensure Timely Use Of Community Development Block Grant Funds

The City of Vancouver was awarded a Community Development Block Grant (CDBG) entitlement from the U.S. Department of Housing and Urban Development (HUD) through Clark County. The city has not complied with the requirement to make timely use of the CDBG funds.

The city's undisbursed entitlement grant funds were \$784,478 at October 31, 1992. This was 1.73 times the 1992 entitlement grant and had accumulated since program year 1988. As cited below, federal regulations set a maximum accumulated balance of 1.5 times the entitlement grant amount, or \$678,937 at October 31, 1992.

Federal regulation 24 CFR 570.902(a)(1)(i) states in part:

(1) Before the funding of the next annual grant and absent substantial evidence to the contrary, the Department will consider an entitlement recipient to be carrying out its CDBG activities in a timely manner if, 60 days prior to the end of its current program year:

(i) The amount of entitlement grant funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is less than 1.5 times the entitlement grant amount for its current program

We noted the city's following reasons for the noncompliance:

- a. If an approved applicant was later rejected, grant funds had to be "reprogrammed" to fund other projects, thus delaying the process.
- b. Some city departments responsible for completing program objectives were delayed. The majority of CDBG program activities require the services of other city departments as well as outside professional resources.
- c. Large projects are sometimes cumbersome and difficult to administer.

However, when a recipient does not disburse CDBG funds in a timely manner, HUD may make future grants to it "conditional" on compliance with the timeliness requirement, or it may reduce the grant award. This condition of noncompliance was also included in our 1991 audit report.

We again recommend city management implement procedures to ensure the timely use of Community Development Block Grant funds.

Auditee's Response

The city has reduced the balance from 2.36 times to 1.73 times the entitlement grant amount since the finding in the 1991 Audit Report. While still above the federal standard of 1.5 times, significant progress has been made.

- (1) The city's "Homeowner's Rehabilitation Program" has benefitted from the reorganization and concerted efforts of Clark County's Community Action Division, who implemented the program on behalf of the city.*
- (2) Projects to be completed by city departments are now more formally administered by the city's Community Preservation and Development Department through memoranda of understanding.*
- (3) A new CDBG manager was hired in April 1993 to coordinate the grant program's administrative and project specific tasks. An improved project tracking procedure has been put in place.*

Now that Clark County has attained entitlement status, the city and county will separately administer their respective CDBG programs beginning in 1993. We anticipate this administrative change to contribute toward eliminating delayed expenditures. The city continues to focus its efforts on meeting the federal regulations by the time of the next audit.

Auditor's Concluding Remarks

We appreciate the auditee's efforts in this matter and will follow-up on their efforts in our next audit of the city.

CITY OF VANCOUVER
Clark County, Washington
Sixty-Seventh Audit
January 1, 1991 Thru December 31, 1991

Schedule Of Findings

1. The City Should Limit Expenditures To The Amount Appropriated

The city exceeded the appropriation for its Remodel Fund by \$736,241. The city council approved the \$1,350,000 lease/purchase of the First Independent Bank building on July 22, 1991; however, it did not amend the budget to include this expenditure. In addition, the city did not record the transaction in its accounting records. City officials were unaware the lease constituted an expenditure at the time the contract was signed. As a result, the city violated state budget law.

RCW 35.34.200 states in part:

. . . The expenditures as classified and itemized in the final budget shall constitute the city's or town's appropriations for the ensuing fiscal biennium. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the city or town, the expenditure of city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to the following:

(a) The total amount appropriated for each fund in the budget for the current fiscal biennium, without regard to the individual items contained therein . . .

(e) Expenditures authorized by budget modification . . . and those required for emergencies

RCW 35.34.210 states:

Liabilities incurred by any officer or employee of the city or town in excess of any budget appropriations shall not be a liability of the city or town. The clerk shall issue no warrant and the city or town legislative body or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon an order of a court of competent jurisdiction or for emergencies as provided in this chapter.

We recommend the city properly record all financial transactions in its accounting records. Also, we recommend the city more effectively monitor the budget, and amend it when necessary.

Auditee's Response

Staff is now aware that a lease/purchase agreement constitutes the expenditure of funds and requires an appropriation, even though there are no immediate payments due. We will monitor such transactions in the future to assure that we properly record such transaction and that proper appropriations are made.

2. The City Should Comply With The Period Of Availability Of Funds Requirement In The Community Development Block Grant Program

The City of Vancouver was awarded a Community Development Block Grant (CDBG) entitlement from the U.S. Department of Housing and Urban Development (HUD) through Clark County.

The city had not complied with the requirement to make timely use of CDBG funds. The city held undisbursed entitlement grant funds of \$1,066,749 at December 31, 1991. This was 2.36 times the 1991 entitlement grant and had accumulated from program years 1988 through 1991. As cited below, federal regulations set a maximum accumulated balance of 1.5 times the entitlement grant amount, or \$678,555 at December 31, 1991.

Federal regulation 24 CFR 570.902(a)(1)(i) states in part:

(1) Before the funding of the next annual grant and absent substantial evidence to the contrary, the Department will consider an entitlement recipient to be carrying out its CDBG activities in a timely manner if, 60 days prior to the end of its current program year:

(i) The amount of entitlement grant funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is less than 1.5 times the entitlement grant amount for its current program

We noted the following reasons for the city's non-compliance:

- a. If an approved applicant was later rejected, grant funds had to be "reprogrammed" to fund other projects delaying the process.
- b. Some city departments responsible for completing program objectives were sometimes delayed. The majority of CDBG program activities require the services of other city departments as well as outside professional entities.
- c. Large projects are sometimes cumbersome and difficult to administer.

When a recipient does not disburse CDBG funds in a timely manner, HUD may make future grants to it "conditional" on compliance with the timeliness requirement, or it may reduce the grant award.

We recommend city management implement procedures to ensure the timely use of Community Development Block Grant funds.

Auditee's Response

City Staff will take appropriate steps to monitor and assure that unspent monies are reprogrammed and timely spent, in accordance with Federal Block Grant requirements.

3. The City Should Improve Controls In The Building Permit System

Our audit of the city's building permit system disclosed the following weaknesses:

- a. Incompatible Duties. The employees who initiate the permits and perform the data processing necessary to update the permit system also accept cash payments.
- b. Computer Security Access Not Monitored. Although the system has the potential for adequate security restrictions, the level of security access was not properly monitored for employees who use the system. This allows greater access to the system than is consistent with good internal controls.
- c. No Reconciliation Of Receipts With Permits Issued. Permits issued are not linked with the cash register. Employees receipt moneys through the cash register and then enter payment amounts into the permit system. The city does not compare cash collected from permit sales to the value of permits issued.
- d. Fee Adjustments Not Approved. Employees can enter adjustments to any permit in the system without formally documenting these actions. Because cash receipt activity is not linked or reconciled with permits issued, unauthorized adjustments could be processed and not detected in a timely manner.
- e. Permit Dates And Fees Can Be Altered. The system contains several possible versions of the correct permit fee to accommodate permits with different starting dates. However, employees with security access can change the fees or the transaction date without any documented audit trail.

Officials responsible for this department indicated they were aware that some of these weaknesses existed. Although management was anxious to resolve these issues, they indicated that sufficient resources had not been available to correct these problems.

These weaknesses put the city at risk for the misuse, abuse, or possible loss of public funds.

We recommend the city devise and implement interior controls for the building permit system as follows:

- a. Segregate employee duties for cash receipting and permit recording.
- b. Limit and monitor the security access of employees using the system.
- c. Perform daily and monthly reconciliations between the cash receipts and permits issued.
- d. Require supervisory review and approval of all adjustments to permit fees.

- e. Modify the permit system to prevent employees from bypassing the transaction date and assigned fee when issuing permits, and generate an audit trail for all system overrides.

Auditee's Response

The duties of cash receipting and permit issuance have now been segregated and we are taking steps to have daily and monthly reconciliations performed by finance department staff. Finance staff will be working with the building department to implement the other recommendations.

Auditor's Concluding Remarks

We wish to take this opportunity to thank city officials for their responsiveness to the recommendations included in this report. We will review management actions taken during our next regularly scheduled audit.

CITY OF VANCOUVER
Clark County, Washington
Sixty-Sixth Audit
January 1, 1990 Thru December 31, 1990

Schedule of Findings

1. The City Should Comply With Federal Requirements Related To Real Property Acquisitions

The City of Vancouver was awarded a \$175,000 grant from the U. S. Department of Housing and Urban Development (HUD). The award was made through the 1988 Community Development Block Grant (CDBG) program to acquire vacant land for construction of new low and moderate income housing. To accomplish the program, the city contracted with the Vancouver Housing Authority to administer the land acquisition.

In April 1991, HUD issued its Performance Monitoring Report disclosing the city had violated regulations in 49 CFR, Part 24.101(a)(1), which requires specific documentation to ensure the sales of land were voluntary transactions. As a result of the violation, the city has not been reimbursed \$41,348.67 for those transactions. The city has since submitted supporting documentation for reconsideration of this issue.

City officials responsible for monitoring the program indicate they relied on the expertise of the Vancouver Housing Authority and did not review the acquisition procedures used.

We recommend that city officials monitor any future real property acquisitions to ensure compliance with regulations when federal funds are used.

Auditee's Response

The city will monitor future property acquisitions to assure that appropriate procedures under the Uniform Relocation Act are followed by subcontractors. In this instance, the intent of the regulations were met even though not fully complied with. It should be noted that, following explanation of the circumstances, the findings were cleared by HUD from their performance monitoring report.

Auditor's Concluding Remarks

We appreciate the city's cooperation and efforts to resolve this audit issue.

2. The City Should Comply With Federal Procurement Requirements

The city received a grant for the Special Program for the Aging-Nutrition Services funded by the Department of Health and Human Services through the Southwest Washington Area on Aging. Our audit of the program disclosed expenditures of \$44,341 for food supplies not advertised for public bid. Failing to formally bid these items violated both federal and city procurement requirements.

The applicable federal standard is 45 CFR Subtitle A, Part 92.36(b), which states:

Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations

The city's procurement standards are in Vancouver Municipal Code 3.04.020, which states:

(a) Whenever the city council determines to purchase any supplies, materials, or equipment, or where a current budget calls for such a purchase, and where the amount of such purchase is more than ten thousand dollars, the purchasing agent shall cause a notice to bidders to be published in the city's official newspaper and in any other publications

City officials indicate they compared their food costs with other municipalities to determine whether additional cost savings were possible. Because their review determined no potential savings, they elected not to go through the formal bid process.

Without soliciting competitive bids, the city cannot be assured it received the best price for the goods purchased. In addition, failing to follow federal and city procurement regulations may result in expenditures being declared ineligible for reimbursement by the granting agency.

We recommend the city follow the formal bid process in all cases required by law.

Auditee's Response

It has historically been the city's opinion that its Senior Nutrition Program food purchases on an ongoing weekly basis were appropriate in order to beneficially address seasonal price changes. We had not considered the aggregate of the entire year's food expenditures as the measure for compliance with applicable bid laws. The city is now acquiring meat products under state contract with the State Department of Corrections. Other food products will be bid on an aggregate basis in accordance with applicable bid laws.

Auditor's Concluding Remarks

We appreciate the city's cooperation and efforts to resolve this audit issue.

3. The City Should Comply With Foreclosure Proceedings Of Delinquent Local Improvement District Assessments

The city provides water, sewer, and road improvements to citizens through the formation of Local Improvement Districts (LID). When the projects are completed, the construction costs are assessed to the benefitted property owners, and may be paid in installments over a 10 to 20 year period.

Our review of LID accounts at December 31, 1990, revealed delinquencies, including interest and penalties, totaling approximately \$99,900. Of that amount, approximately \$69,500 represents those accounts where 2 or more installments were delinquent and therefore subject to foreclosure proceedings.

RCW 35.50.030 states:

If on the first day of January in any year two installments of any local improvement district assessment are delinquent, or if the final installment thereof has been delinquent for more than one year, the city or town shall proceed with the foreclosure of the delinquent installments (Emphasis ours.)

Attorney General letter dated November 3, 1986, from Assistant Attorney General Mary Jo Dias to Richland City Attorney Robert G. Swisher regarding a similar instance, states:

. . . The date which the actual proceedings shall be commenced is the only discretionary activity . . . ; the actual institution of proceedings is mandatory.

The city has established procedures to ensure compliance with the law. However, in this instance, its procedures were not followed.

Failing to vigorously foreclose on LID delinquencies extends an unfair advantage to those property owners who do not pay their assessments timely.

We recommend the city comply with the LID foreclosure provisions of RCW 35.50.030 and its own administrative collection procedures.

Auditee' Response

City officials think that LID foreclosures are quite a debatable judgment. Our experience has been that almost all or in fact "all" do get paid, and filing of foreclosure proceedings as soon as they become legally available (as the Auditor recommends) might well be counter-productive. That is, we are trying to get people to agree to join in forming LIDs to get sewers built, and frequent news of foreclosure proceedings being filed in court would be counter-productive.

The finding suggests it is unfair to property owners who pay promptly if we don't immediately file against those that are even slightly late. However, all of them pay interest and the statutory penalty on amounts overdue.

We do plan to file in the near future against the accounts that are seriously delinquent.

Auditor's Concluding Remarks

We reaffirm our finding and again recommend that the city follow the foreclosure provisions of RCW 35.50.030 and its own administrative collection procedures.