

SECTION II – Financial Statement Findings

2017-001

Condition and criteria: Good accounting controls require that employees with access to cash not also record the transactions in the accounting records. Because of the small number of City staff, the employee collecting utility billing proceeds is also responsible for recording collections and adjustments to the utility receivable records. This lack of separation of accounting duties increases the possibility that cash will be lost. Employees with no cash handling responsibilities should reconcile daily cash received, cash posting and adjustment posting, to the receivable records as an offsetting control.

Effect: The lack of separation of cash handling processes and the recording of collections and adjustments to utility receivables is a standard accounting control practice. Not having this separation of duties could lead to opportunities for fraudulent practices and lost funds.

Cause: Historically, staffing levels for this sort of cashing/reconciliation funding has not been at a level to allow for the appropriate separation of duties in this function. While there has not been an instance where this lack of separation of duties has resulted in fraudulent activity, best practices in this situation should be followed.

Recommendation: We recommend that the City regularly evaluate the job duties of employees for proper separation of accounting duties and cash handling duties.

Management response: The City agrees with the above condition. A new Finance Director has been hired and will perform an extensive review of internal controls and separation of duties as part of the process of obtaining a full and complete understanding of the City's financial operations. Specific action will be taken to remedy this lack of separation of duties by the end of the 3rd quarter of FY 2017-2018.

Compliance with Local Budget Law – Expenditures Exceeding Appropriations

Condition and Criteria: Expenditures in the General Fund, Transient Room Tax Fund, Energy Services Fund, Utility Fund and the Regional Water Fund exceeded appropriations for the fiscal year ended June 30, 2017.

Cause: City management typically reviews each fund every month to monitor revenues compared to estimates and expenditures compared to appropriations. This review is intended to identify areas where actual expenditures are not within budget estimates for the period. Historically, the city does one budget amendment per year to address the cumulative effect of these types of situations when expenditures exceed (or are projected to exceed) budget estimates. The above-mentioned funds activity occurred later in the fiscal year after the budget amendment which led to the need for expenditures that were not planned.

Management's Plan of Action: With the hiring of a new Finance Director, city management will review the budget/expenditure process at mid-year to ensure every effort is made to not have departments exceed their original (or revised) budget expenditures in any fiscal year.

Compliance with Master Bond Declaration Coverage Ratio Test

Condition and Criteria: The city is required to charge rates and fees in connection with the operation of its water and sewer system which are adequate to generate net revenues at least equal to 120% of annual

bond debt service due in that fiscal year. The water and sewer system's net revenue was less than 120% of bond debt service in 2017.

Cause: Unexpected expenditures were required (approximately \$1.4 million) to clean out the sewer lagoon in 2017. If this unplanned expenditure had not occurred, the city would have had a coverage ratio of 2.84 for the period. This expenditure is not scheduled to recur in 2018.

Management's Plan of Action: City management believes the coverage test of net revenue in excess of 120% of debt service will be met in 2018. Future expenditures with regards to the clean out of the sewer lagoon will be properly budgeted as appropriate in future years as needed.

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