

BLACK DIAMOND CITY COUNCIL MINUTES
April 13, 2017 Special Meeting
Council Chamber, 25510 Lawson Street, Black Diamond, Washington

CALL TO ORDER, FLAG SALUTE:

Mayor Benson called the special meeting to order at 1:00 p.m. and led us all in the Flag Salute.

ROLL CALL:

PRESENT: Councilmembers Deady, Edelman, and Pepper.

ABSENT: Councilmembers Morgan and Weber

Staff present: Jamey Kiblinger, Police Chief; May Miller, Finance Director; Jana King, Deputy Finance Director; and Brenda L. Martinez, City Clerk.

State Auditor Exit Conference:

Mayor Benson welcomed everyone and asked for introductions of attendees. Attendees from the State Auditor's office were Kelly Colling, Wendy Choy, Sandra Groshong, and Megan McCallum.

Wendy Choy thanked May Miller and her staff for being very responsive during the audit period. She also noted the City being very responsive to their recommendations.

It was noted the audit scope was an Accountability audit for 2013 through 2014 with limited procedures performed for 2015. Ms. Choy discussed the areas that were examined during the audit period which were:

- Disbursements and accounts payable system (through December 2015) – it was noted there were some recommendations in this area in the form of a management letter which is used to formally communicate those recommendations to the entity. Ms. Choy discussed the management letter items which is attached to the minutes. Finance Director Miller reviewed the City's responses to the management letter items which is also attached to the minutes. There was discussion on the Vision system meeting the needs of the City and training opportunities from the vendor.
- Cash receipting: Court and Police Departments - no recommendations
- Credit cards – it was noted the 2013-2014 credit card transactions were reviewed and tested and there were no recommendations.

- Procurement 9(bidding/prevaling wage) – it was noted two projects were tested and some housekeeping items that were discussed with management.
- Financial condition – no recommendations
- Budget compliance – no recommendations

Ms. Choy also discussed that audit costs were estimated at \$45,000 and were higher due to the 2015 disbursement review.

Ms. Sandra Groshong discussed the next scheduled audit on accountability and financials being for the years 2015-2016. She stated she anticipated starting this audit in late 2017 and the lead for the audit will be Megan McCallum. Also discussed were the estimated audit cost being \$46,000 plus travel expenses (based on current rates), and efficiencies being made with the auditor's office and Department of Transportation regarding the annual street report.

Finance Director Miller discussed working with the State's Local Government Performance Center to help further improve accounts payable processes and procedures.

Ms. Choy distributed and discussed the accountability document which is attached to the minutes.


In closing, Councilmembers, Mayor and attendees thanked everyone for this exit conference and it was noted again that Ms. Miller was very responsive and having things fixed before the auditor walked out the door.

ADJOURNMENT:

A **motion** was made by Councilmember Edelman and **seconded** by Councilmember Deady to adjourn the meeting. Motion **passed** with all voting in favor (3-0).

The meeting ended at 1:45 p.m.

ATTEST:



Carol Benson, Mayor



Brenda L. Martinez, City Clerk

City of Black Diamond
January 1, 2013 through December 31, 2014
Exit Items

ACCOUNTABILITY

1. Procurement

We reviewed the City's compliance with procurement requirements for the Lawson Street Sidewalk Project in the amount of \$213,724 and the 5th Avenue Watermain Replacement Project in the amount of \$158,147.

We noted the City released retainage prior to receiving the Certificate of Release from Liability for Industrial Insurance premiums from the Department of Labor and Industries as follows:

- Lawson Street Sidewalk Project: retainage was released three days prior to the L&I release
- 5th Avenue Watermain Replacement Project: retainage was released 15 days prior to the L&I release

We also noted the City did not maintain evidence that the contractor for the 5th Avenue Watermain Replacement Project was not disqualified from bidding on public works projects as required by state law.

We recommend the City establish procedures to ensure retainage is not released until the appropriate documents are received. We further recommend the City maintain evidence it verified contractors were not disqualified from bidding on public works projects.

2. Police Department: Cash Receipting

Total revenue collected at the Police Department was \$11,800 and \$13,018 in 2013 and 2014, respectively. We noted the Police Department does not reconcile its deposit before it is picked up by the Finance Department and that there is no sign-off when the money leaves the Police Department. We also noted the money is kept in an unsealed folder rather than in a tamper proof bag.

We recommend the Police Department reconciles money collected before it is picked up by the Finance Department. We further recommend funds are placed in a tamper proof bag and that processes are put in place to ensure assigned responsibility.

3. City Property and Cash Receipting Locations

During the audit, we determined the City has a cash receipting location at the Lake Sawyer Boat Launch. The City collects parking fees for boat launches and total revenues were \$15,186 and \$21,536 in 2013 and 2014, respectively.

City of Black Diamond
January 1, 2013 through December 31, 2014
Exit Items

Further, in 2015 the City determined it owned the Gym building when it previously believed the Black Diamond Community Center owned the building. The Gym collected approximately \$600 in revenues.

We recommend the City reassess properties within the City limit to determine whether there are additional facilities the City should own but is not aware of. We further recommend the City identifies all cash receipting locations and ensure there are adequate controls in place to ensure all money owed is deposited intact and timely.

Management Letter
City of Black Diamond
January 1, 2013 through December 31, 2015

Accounts Payable System

The City's total operating expenditures from 2013 through 2015 were \$6.1 million, \$6.5 million and \$6.3 million, respectively. The City is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and City policies, and the safeguarding of public resources. This includes establishing internal controls to ensure payments have adequate support and proper approval. Local governments can issue payments before board approval if the appropriate policies and procedures are in place (BARS Manual 3.8.5.50).

During our audit, we noted City employees entered information into the accounts payable accounting software (the system) that did not agree to the supporting documentation. We also determined the City's review of system reports was not adequate to ensure that information entered into the system was reasonable or accurate when compared to supporting documentation.

We tested 26 transactions, totaling \$196,186, that were paid during the audit period. We compared the invoices and checks issued for payment to the information entered in the City's accounts payable system. We identified 16 transactions, totaling \$112,237, for which the information entered into the system was inconsistent when compared to the checks and invoices. We noted:

- Three invoices were received in late 2014. However, the City did not process the payments until March 2015. There was no documentation explaining why the payment was late.
- Three invoices had dates that did not agree to what was entered into the system. One invoice paid in 2015 had 2017 listed as the transaction date in the system. One invoice paid in 2014 had 2015 listed as the transaction date. One electronic fund transfer (EFT) had a check print date in the system, but checks are not issued for EFT transactions.
- Two instances in which the Finance Director prepared the early release form, but it was not approved by another individual.
- Fifteen invoices did not have the dates the City received them.

Although we did not identify any unallowable expenditures, the inconsistent entries into the system increase the likelihood that errors or misappropriation could occur and not be detected in a timely manner, if at all.

During the audit, the City updated its financial policy to include the risks discussed above. We will follow up on the updated policy during the next audit.

We recommend the City:

- Ensure employees have an appropriate understanding of the accounts payable software system.
- Ensure management has a clear understanding of what each system field represents and communicates this to staff.
- Review system reports to monitor information entered into the system for accuracy and reasonableness when compared to supporting documents.
- Ensure disbursements are properly authorized and there are explanations to support unusual transactions.

4/11/17

City of Black Diamond 2013-2015 Accountability Audit Response

The audit covered data entered into the Accounts Payable software system from four years ago (2013) through two years ago (2015). The City acknowledges that "transaction dates" which are really "invoice dates" did not always agree to the invoice dates that were entered into the Accounts Payable software system. Our Audit reports didn't include transaction dates in our printouts, however they did appear in the data dump the auditors used for the audit.

Our software voucher audit report has been in use since 2009, and did list: vendor name, invoice number, date of service, description (including business purpose, department and contract number) account number and dollar amount. But because the report did not list "transaction dates" (invoice date), some invoice date keypunch errors occurred during 2013-2015 that were not detected due to the report deficiency.

As soon as this was detected the City contacted our software vendor and purchased a custom update to add the missing field to the voucher audit report. This invoice date field is now audited along with all the other voucher input data. The Finance Department also now date stamps all invoices as they are received by our department.

The City also acknowledges that as technology and need for transparency continues to grow, updating and incorporating these changes into the City's financial processes and policies are crucial. In that effort, the City has incorporated a Government Finance Officers Association Best Practice recommendation to utilize Electronic Payments. This was recommended by them as an efficient effort that can reduce security risk, payment fraud and improved tracing. To that effort the City began including routine monthly EFT'S (Electronic Fund Transfers) to the Council Voucher reports.

However, our software system was not designed to include scheduled EFT transactions for items such as State Excise Tax reporting, and has only one field for "Check Issue Date" which we used as the date the funds were withdrawn from our bank account each month. This caused the system to show a check print date when checks were not issued at all. Our software vendor will be doing an update to their Financial and Payroll software during 2017 and the City will be working with them to clarify these EFT transactions on reports.

The City acknowledges that we did not note on the vouchers why three invoices from 2014 were not paid until March 2015. Research showed that the vendor had emailed the invoices to an employee who had resigned and who didn't notify the City about them. We set up a new Accounts Payable email site in late 2015, before this Audit, to best insure late payments like those wouldn't happen again. Additionally, we now note on documents any unusual

circumstances for irregular payment dates or amounts. The City also initiated a new Early Release Check Form in early 2015 and makes certain staff are trained to understand when the form is needed and that the required number of authorized signatures are secured.

The Auditors did not identify any unallowable expenditures or misappropriations, but noted that some other improvements be made. We have incorporated all their suggestions and truly appreciate their expertise. Some other improvements we have made include:

- Annual updates of our Financial Internal Control Policy with continued improvements.
- Training staff on the various system fields and name variations. Including, staff utilizing the Software Vendor's On-line System Training that began in 2016.
- Contacted, met with, set a time frame for the State's Local Government Performance Center to come to the City of Black Diamond to further improve Accounts Payable processes and procedures in this technologically changing and transparency environment.
- Volunteered to be on the lead software team for our vendor's 2017 Financial and Payroll Software improvement.

The City of Black Diamond appreciates and wishes to thank the State Auditor's Office for the staff's continued professionalism, courtesy and helpful attitudes during this and every other audit. We continually learn and make process improvements every time you come!



Office of the Washington State Auditor

Pat McCarthy

Accountability Audit Report
City of Black Diamond
King County

For the period January 1, 2013 through December 31, 2014

Published

Report No. 1018946



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

Issue Date – (Issued by OS)

Mayor and City Council
City of Black Diamond
Black Diamond, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the City's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, City operations complied with applicable requirements and provided adequate safeguarding of public resources. The City also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we noted certain matters that we communicated to City management in a letter dated April 13, 2017, related to the City's accounts payable system. We appreciate the City's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of the City of Black Diamond from January 1, 2013 through December 31, 2014. We also performed limited procedures related to the City's disbursements and accounts payable system for the fiscal year ended December 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Disbursements and accounts payable system (through December 2015)
- Cash receipting:
 - Courts
 - Police Department
- Credit cards
- Procurement (bidding/prevaling wage)
- Financial condition
- Budget compliance

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Black Diamond, incorporated in 1959, is classified as a non-charter code City located in King County. The City provides its approximately 4,200 residents with police, fire, water, sewer, stormwater, streets, public works, community development, park, cemetery and Municipal Court services. The City of Black Diamond is a strong (elected) Mayor code city. The Mayor shall be the chief executive (RCW 35A.12.100) and administrative officer of the city, in charge of all departments and its 28 employees.

The elected five member City Council is the legislative arm of the government and makes policy in the form of passing ordinances or resolutions. For fiscal years 2013 and 2014, the City reported expenditures of \$8.3 million for both years.

Contact information related to this report	
Address:	City of Black Diamond P.O. Box 599 Black Diamond, WA 98010
Contact:	May Miller, Finance Director
Telephone:	(360) 886-5707
Website:	www.ci.blackdiamond.wa.us

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Black Diamond at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

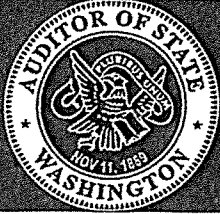
As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



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Exit Conference: City of Black Diamond

About our Office

The Washington State Auditor's Office's vision is government that works for citizens. Our goal is for government that works better, costs less and earns greater public trust.

The purpose of this meeting is to share our audit results and draft reporting. We value and appreciate your participation.

Audit Highlights

- We would like to thank May Miller, Finance Director and City staff for their cooperation and timely response to our requests during the audit.
- We noted the City is responsive to our recommendations and has a proactive attitude over accountability and internal controls.
- We thank the City for its ongoing commitment to build our relationship.

Audit Scope

We performed the following audit for the City of Black Diamond:

- **Accountability audit for 2013 through 2014 with limited procedures performed for 2015.** See draft report.

Recommendations not included in the Audit Reports

Management Letters

Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. Management letters are referenced, but not included, in the audit report. We noted certain matters that we are communicating in a letter to management related to the accounts payable system.

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Concluding Comments

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/saoportal/Login.aspx>

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$45,122, plus travel expenses which was for fiscal year 2013 to 2014. Actual audit costs will be approximately \$49,500 to include fiscal year 2015 into the accountability audit scope.

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in late 2017, and will cover the following general areas:

- Accountability for Public Resources – fiscal year 2015 and 2016
- Financial Statement – fiscal year 2015 and 2016

The estimated cost for the next audit based on current rates is \$46,000, plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost. For instance, the wage increase for state employees currently being considered by the state Legislature would make an audit billing rate increase necessary in the coming biennium.

Anticipated areas of focus for the accountability audit are:

- Disbursements
- Contracts and agreements
- Payroll
- Utilities
- Third party cash receipting

If expenditures of federal awards are \$750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal single audit requirements. Federal awards can include grants, loans, and non-cash assistance such as equipment and supplies.

Emerging Issues

Some of the emerging issues affecting local governments are the following:

2017 BARS Manual Update – Cash Basis:

Every year, guidance in the Budgeting, Accounting and Reporting (BARS) manual is updated to ensure it remains a current and valuable resource for local governments. The current BARS manual contains

updates applicable to 2016 annual reports. These updates include minor improvements to account coding, accounting guidance, and the financial statement report template as follows:

- Account code clarifications to emphasize correct reporting of leasehold and timber taxes (as intergovernmental except for counties and cities) and rental revenues (as charges for services unless ancillary).
- Updated illustrations and note disclosures for the second year of pension reporting.
- Improvements to the financial statement format to more clearly allow accounting and display special and extraordinary items (as 385/585) and custodial activities (as 389/589).

Also, after successfully eliminating the Department of Commerce's annual GO Survey last year, our Office is continuing to work with other state agencies to reduce reporting burdens on local governments by piloting an alternative to the Department of Transportation's Annual Street/Road Finance Report for Cities and Counties.

A full list of updates is available on our website.

Available Resources

The Washington State Auditor's Office also has many resources available throughout the year.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.