



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





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	
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Contact:	May Miller, Finance Director
Telephone:	(360) 886-5707
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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	<u>PublicRecords@sao.wa.gov</u>
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Toll-free Citizen Hotline	(866) 902-3900
Website	<u>www.sao.wa.gov</u>



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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.

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.

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 annual data transmittal 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 included 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

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