November 8, 2011
Administrator / Clerk / Treasurer's Report

Public Works

- Work on the water system plan continues to move along; Jennifer and Ray are both collecting information for the engineers.
- PW Staff currently have to return to the plant each evening and manually turn down the sewer system's blowers. Don and Bob Bianchi installed new software to automate the blowers, and we will be contracting some additional work to set up the software. This project will significantly reduce PW's workload.

Building

- No new activity.

Court

- Jennifer and John are discussing the possibility of contracting with the City of Stevenson for court services for criminal matters.

Planning

- Tom is busy with:
    - Shoreline Master Plan (60% time right now) – maps, public information
    - Heritage Trails
- Code Enforcement
- Updating city codes
- Due to Tom's diligence and cooperation with the Department of Ecology, we are now expecting an additional grant for the SMP project of $25,000 to $40,000. Not only does this enable us to complete an important project, but it also balances our 2012 budget. Hats off to Tom!

Planning Commission

- Working on Heritage Trails – Children's Loop.
- Completed the Animal Ordinance and have forwarded it to council. It will be on the November 22nd agenda.
- Had a good presentation by park developers on the children's loop idea.

Fire

- JB is sending each firefighter in for physical evaluations to enhance safety.
- JB is also working on a policy for additional firefighter pay for working on DNR fires when the city receives DNR reimbursements.

Parks and Recreation Committee

- No significant activity.

Personnel

- Coordinating investigation on harassment complaints.

- Jennifer created new draft job descriptions for PW staff to comply with WCIA requirements.
- Attempting to work with the union on a number of personnel matters.

Finance / Administration

- Continued working with auditors on the biennial state audit.
    - We are anticipating significant audit findings, please see below.
- I continue to work on cleaning up finances.
- Continued work on the 2012 Budget and 2011 Year-End estimates.
- Continued negotiations and paperwork for lease of the cable system.
- Obtained tentative rates and approval on a new loan to refinance the fire engine.
- Reviewed lodging tax expenditures and made recommendations.
- Special thanks to a local citizen for volunteering her time to help in the office!

Police / EDC / Chamber

- New Sheriff contracts are on tonight's council agenda.
- Please find attached a report on activity and a report on patrol hours.

2009 – 2010
Audit
Findings

Every two years the State Auditor's Office conducts an audit of city finances and controls. They are now completing the 2009 – 2010 audit of North Bonneville, and we expect a final report by mid-December. Because the findings will be very serious, we feel we need to present the preliminary information now.

We have been warned to expect two audit findings:

1. The 2009 and 2010 financial statements did not adequately represent the city's financial position.
    - The Auditors were not able to reconcile the financial statements with the city's books, nor did the books reconcile with each other.
    - The ending fund balances were significantly higher than the amount of cash and investments actually owned.
        - They warned us that the cash reconciliation we performed last winter was inadequate in that the cash write-down was too small. Instead of writing off about $100,000, the city should have written off about $250,000 (John is working on calculating the exact figure).

2. The city does not have adequate controls to ensure fiscal accountability. Inadequate controls resulted in:
    - At least 3 employees were overpaid by about $12,000 (for the three of them, not per person). We are waiting for exact figures from the auditor.
    - One employee was underpaid by about $600.
    - Compensatory time was allowed even though the collective bargaining agreement did not provide for it.
        - Additionally, compensatory time was allowed to build beyond the 100-hour maximum allowed for in the new personnel policies.
    - The city engineer contract was contracted orally and without a proper RFP process.
    - Treasurer checks were issued without council approval.
    - Hotel/Motel tax expenditures were made without proper documentation.
    - Interest earnings were improperly allocated to the General Fund.
    - Real Estate Excise Tax (REET) was improperly spent on the Hamilton Creek dredging project.
    - Proper purchasing procedures were not followed on the Hamilton Creek dredging project.
    - Cash Reconciliations have not been adequately performed.
    - There are inadequate controls on adjustments to utility billing accounts.

We made initial attempts to answer obvious questions below. Further details will be made available as we evaluate these issues and obtain further documentation from the Auditor's Office.

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2009 – 2010 Audit
Q&A

Why weren't these problems found in the 2007 – 2008 audit?
Some issues were addressed verbally and in a letter to the city in the 2007/08 audit, but did not rise to the level "audit findings." Among the issues addressed were (1) concern about the controls on the Hamilton Creek project and (2) concern about the impact of the political situation on the performance of staff and financial controls.

Each audit looks at different areas of the city. For example, the last payroll audit was on the 2005/06 records.

Why didn't John or Don figure this out earlier?
We have been aware of most of these problems since the fall of 2010, and have already fixed many of them:

- Missing Money
  We identified this problem last fall and attempted to correct it last winter. Despite being reviewed by both the Auditor's Office and an independent consultant, a mathematical error that John made was not caught. This resulted in our correction being about $150,000 short of what was needed.

- Overpaid Employees
  Payroll is reviewed and approved by council each month. We had no reason to anticipate this problem and did not audit it ourselves.

- Underpaid Employee
  Payroll is reviewed and approved by council each month. We had no reason to anticipate this problem and did not audit it ourselves.

- Compensatory Time
  We disagree with the Auditor's Office on this matter. We feel that compensatory time is acceptable under current and former policies and agreements. We accept responsibility for the fact that it was allowed to build beyond the 100 hour maximum – this was an oversight on our part.

- Engineer Contract
  We identified this problem and signed a proper contract with the engineer earlier this year. At that time we also committed to conducting a RFP this December.

- Treasurer Checks
  We identified this problem last summer and immediately began bringing treasurer checks to council for approval. The use of manual treasurer checks has since been discontinued.

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- Hotel/Motel Expenditures
  We identified this problem last fall and corrected it with a better process and proper contracts last fall.

- Hamilton Creek
  This project was completed before John was hired. There was no reason to anticipate a problem with it.

- Interest Earnings
  We thought interest earnings were allocated properly under RCW 35A.40.050 and under our 1991 Resolution #300. This allocation is also common to many cities, and apparently is a new focus of the Auditor's Office.

- Cash Reconciliation
  We recognized this problem last summer and attempted to resolve it. During the confusion of union grievances, new financial software, etc., John perpetuated the problem and accepts responsibility for it. We are now fixing this problem and have written procedures to help ensure it does not happen again.

- Utility Billing Adjustments
  We were simply not aware that this was an issue and are appreciative of the Auditor's Office bringing it to our attention.

How can anyone possibly miss a $250,000 error?
We did find $100,000 of this error, and vetted it with multiple people (including the Auditor's Office) at the time. The fact that no one (including us) caught the mathematical error is highly disappointing to us (and embarrassing to John).

John has been aware that cash was still not correctly reconciled, but did not understand the extent of the problem because of a quirk in the new financial software (the software presented investments in a way that seemed to offset most of the error). John mentioned that he needed to work on cash reconciliation, but did not fully discuss it with council because he had not yet found time to properly analyze it.

What are the penalties for these findings?
There are no penalties associated with audit findings. These findings may make it more difficult to obtain loans or issue bonds. Additionally, the correcting errors will result in a much worse financial position than we thought we were in.

I thought we already did a big cash write-off. Did we lose more?
No, we did not lose more money; rather we have become aware that our cash has been misrepresented for the last few years.

Is the city bankrupt?
No. We will be able to correct the situation with a series of interfund loans. That said, we are in a very unstable, tenuous position that must be fixed.

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What is the city doing about this?
First, we are working hard to analyze all these problems and make recommendations. We will correct our fund balances with a large write-off of cash from our books and then by lending money between various funds to make sure all have a positive balance.

We are presenting a conservative, balanced budget to council that keeps us from falling any further.

Any additional income, such as from sales tax and permit fees from development, can be used to rebuild our fund balances.

Why are we hearing about this only just before the election?
We received some very initial comments about these situations over the last two weeks, but the Auditor's Office was unable to give us a clear indication of their assessment until Thursday, November 3rd. While we suspected that there were serious problems as early as the October 25th council meeting, we did not discuss them because we were not sure what the extent of the problems were.

With the office closed on Fridays, we are providing this information at our first opportunity.

Where did the money go? Did someone steal money?
We believe the misstatements resulted from years of accumulated bookkeeping errors, with some particularly large errors made in 2009 and 2010.

Are employees going to pay the city back money?
First we need to verify the auditor's findings and determine if money is actually owed to the city. We are waiting for more information from the Auditor's Office and will be discussing the matter with legal counsel and the union.

Who is to blame for this?

- The Auditor's Office failed to catch and alert the public of errors during its last audit.
- The former mayor and office staff failed to keep good books and follow proper procedures.
- The current mayor and office staff failed to catch and correct all of the errors, and even perpetuated some improper practices.
- The council failed to maintain proper oversight.

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