

**EXAMINATION OF CERTAIN FINANCIAL OPERATIONS AND
INTERNAL POLICIES AND CONTROLS OF THE
SALYERSVILLE WATER WORKS**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

Table of Contents

	<u>Page</u>
Letter from Auditor of Public Accounts	1
CHAPTER 1: Introduction and Background	3
CHAPTER 2: Findings	4
Finding 1: SWW Lacked Adequate Internal Control Structure.....	4
Finding 2: Billing Adjustments Were Not Handled Properly.....	5
Finding 3: Insufficient Controls Led To Questionable Purchases	6
Finding 4: Receipts Were Not Accounted For Properly	7
Finding 5: Public Funds Were Improperly Utilized for Employee Bonuses	8
Finding 6: The SWW Board Does Not Have Statutory Authority To Establish Fees	9
Finding 7: SWW Engaged in Questionable Real Property Transactions	10
Finding 8: SWW Has Failed to Maintain A Sufficient Capital Asset Listing.....	11
Finding 9: SWW Lacks Written Policies and Procedures	12
Finding 10: SWW Failed To Implement Segregation of Duties.....	13
Appendices.....	14
Salyersville Water Works Response.....	16

Tables of Figures & Appendices

Figure 1: Adjustment Totals by Dollar Amount and Number	5
Appendix A: OAG Opinion 62-1	15



ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

January 7, 2025

Stanley Howard, Mayor
City of Salyersville
74 East Maple Street
Salyersville, Kentucky 41465
Via Email: mayorstanleyhoward@gmail.com

Dear Mayor Howard,

The Auditor of Public Accounts (APA) has completed a limited-scope special examination of the Salyersville Water Works (SWW). The purpose of this special examination was not to provide an opinion on SWW's financial statements but to review specific matters brought to our attention and to make recommendations to strengthen and improve internal controls to ensure operating activities are consistent, transparent, and statutorily compliant.

This report summarizes the procedures performed and communicates the results of those procedures. Detailed findings and recommendations based on our special examination are presented to assist management in implementing corrective action. Overall, these findings indicate the following:

- SWW Lacked Adequate Internal Control Structure
- Billing Adjustments Were Not Handled Properly
- Insufficient Controls Led To Questionable Purchases
- Receipts Were Not Accounted For Properly
- Public Funds Were Improperly Utilized for Employee Bonuses
- The SWW Board Does Not Have Statutory Authority To Establish Fees
- SWW Engaged in Questionable Real Property Transactions
- SWW Has Failed to Maintain A Sufficient Capital Asset Listing
- SWW Lacks Written Policies and Procedures
- SWW Failed To Implement Segregation of Duties

Pursuant to KRS 43.090(1), "[w]ithin sixty (60) days of the completion of the final audit or examination report, the agency to which an Auditor's report pertains shall notify the Legislative

Stanley Howard, Mayor

January 7, 2025

Page 2

Research Commission and the Auditor of the audit recommendations it has implemented and of the audit recommendations it has not implemented. The agency shall state the reasons for its failure to implement any recommendation made in the final audit or examination report. All audit reports and agency responses shall be, subject to KRS 61.870 to 61.884, posted online in a publicly searchable format.”

Thank you for your attention to these matters and your cooperation with this limited-scope special examination. If you have any questions regarding this letter, please contact Savannah Baker, Executive Director of the Office of Special Examinations, at savannah.baker@ky.gov.

Respectfully submitted,

Allison Ball

Allison Ball

Auditor of Public Accounts

Cc Karen Howard, City Clerk, kh.cityhall@gmail.com
Nora Howard, Public Works Director, nora.howard22@yahoo.com
Colin Jackson, Council Member, judjudjackson@yahoo.com
Herbert Tex Holbrook, Council Member, gaylena@foothills.net
Phyllis Howard, Council Member, addedtouch24@yahoo.com
Darrell Arnett, Council Member, bonnie1951@hotmail.com
Patricia Frazier, Council Member, patom@foothills.net
Paul Montgomery, Council Member, paulmontgomery190@yahoo.com

CHAPTER 1: Introduction and Background

Audit Impetus, Methodology, and Scope

The APA conducted a limited-scope special examination of SWW. This special examination was initiated after our office received concerns about certain activities. To address the expressed concerns, the APA reviewed certain information related to SWW, including bank statements, invoices, and reports, and performed other procedures as deemed necessary. Unless otherwise indicated, the examination period of this engagement was from July 1, 2021, to March 31, 2024.

Background

Pursuant to KRS 96.320, SWW was established in 1952 as a water provider for the city of Salyersville, Kentucky (City). SWW was governed by a board of commissioners (Board) until October 2023, when the Board dissolved. Since then, SWW has operated as a department of the City under the jurisdiction of the Mayor.

CHAPTER 2: Findings

Ten detailed findings and recommendations based on the special examination are presented in this report to assist management in implementing corrective action.

Finding 1: SWW Lacked Adequate Internal Control Structure

Internal controls are policies or processes that ensure an agency has reliable information, operates efficiently, complies with laws, and reduces the risk of fraud. It is the responsibility of management to create an environment of financial accountability and to ensure internal controls are not only in place but strictly adhered to.

During this examination, it was evident SWW entirely lacked internal controls, creating a high-risk environment for undetected waste, fraud, and abuse. SWW engaged in poor security practices, leaving it vulnerable to fraud and other unlawful activities. Several concerns were noted because of SWW's inadequate internal controls:

- Multiple unsupported adjustments made to customers' bills. (*See Finding 2*)
- Blank checks were kept on a shelf, accessible to all.
- Credit card was kept in an unsecured closet with no sign-out process or formal approval required prior to use.
- While two signatures were required on checks, a signature stamp was used by one commissioner with no controls in place to reduce the risk of misuse.
- Receipts were not deposited daily.
- Pre-approvals were not required for purchases.
- Undeposited funds were placed in a closet that current and former SWW employees have a key to unlock.
- Bank accounts were not reconciled monthly, leading to overdrafts on accounts and charges of \$1,585.

We recommend SWW:

- Create a strong internal control environment.
- Ensure internal controls are known by appropriate personnel and strictly adhered to.
- Take all necessary steps to ensure monies, credit cards, and all other financial materials are safely secured from unauthorized persons.
- Establish proper approvals for purchases.
- Reconcile bank accounts in a frequent and timely manner (*e.g.*, monthly).
- Require approval and supporting documentation before making adjustments to customers' bills.

Finding 2: Billing Adjustments Were Not Handled Properly

SWW did not have a policy outlining when an adjustment to a customer’s bill would be appropriate and allowable. Any SWW employee could adjust a bill without authorization or a legitimate reason because employee names were not associated with the IDs utilized to initiate an adjustment. As shown in Figure 1, during the exam period, there were numerous adjustments made without any supporting documentation:

Figure 1: Adjustment Totals by Dollar Amount and Number

Fiscal Year	Dollar Amount Adjusted	Total # of Bills Adjusted
2022	\$ 162,225	817
2023	\$ 134,352	590
2024 (1st Quarter)	\$ 890,312	963

Source: APA, based on SWW Adjustment Reports.

While auditors were not able to substantively test adjustments due to SWW’s failure to maintain supporting documentation and to adopt a policy on what adjustments are allowed versus unallowed, a small number of individual customer accounts were selected to determine *how* adjustments were noted in the system. Almost half of the selected accounts merely had “[w]as told to adjust” as the reason for the adjustment. Further, despite the fact that customers are only supposed to receive one adjustment per year, numerous customers—including a family member of the former general manager—received multiple adjustments each year without adequate justification.

We recommend SWW establish a comprehensive policy on the adjustment of bills by SWW personnel. The policy should, at a minimum, outline:

- What adjustments are allowed and unallowed,
- How many adjustments can be made per year,
- Who can authorize adjustments, and
- What supporting documentation is required per adjustment.

Finding 3: Insufficient Controls Led To Questionable Purchases

Questionable Spending

Based on interviews with SWW personnel, the City assumed jurisdiction over SWW due to its dismal financial condition and inability to pay bills. A contributing factor to SWW's financial struggles was questionable spending of public funds by SWW staff, as evidenced by numerous purchases that were excessive, predominantly personal, or lacking a clear business purpose:

- While there was no documentation provided for the \$5,125 spent at the Salyersville IGA, SWW personnel informed auditors the purchase was for “gift cards for employees, board members, and the mayor at the time for Christmas and Thanksgiving.”
- SWW sponsored Christmas parties with catered meals, bonuses, gift cards, and a large basket filled with items from a local market estimated to be valued at \$100.
- Snacks for employee use, totaling \$1,498, were purchased with SWW's Staples credit card (*e.g.*, candy, water, ketchup).
- \$8,854 was spent on lunches at local restaurants with no documented business purpose.
- \$2,791 was spent at out-of-town restaurants with no verified business purpose.
- \$777 in credit card charges were made outside of normal business hours with no documented business purpose.
- \$296 in credit card charges were made at a floral/gift shop.
- \$1,910 in interest and late fees to Visa and Staples.
- SWW failed to utilize its tax exemption status and paid cumulative sales tax of \$132.

Unsupported Purchases

Only 21 out of the 75 selected credit card transactions were adequately supported by documentation. Out of the 43 checks selected for testing, only 10 were properly supported with documentation. The lack of documentation prevented auditors from verifying the propriety of numerous expenditures, including vendor payments to Walmart, Family Dollar, B&B Discount Tobacco, Dollar General, Amazon, and Prater Drugs.

In addition, SWW employees were not required to keep a log documenting mileage or turn in receipts for gas purchases. This lack of oversight allowed an employee to purchase gas twice within a few hours without a documented explanation. It is also unclear, due to the lack of support, whether the other reviewed gas purchases were even necessary or proper.

We recommend SWW:

- Require all purchases made with public funds to be reasonable in amount, beneficial to the public, and not predominantly personal. If Christmas gifts or other personal expenses are desired (*e.g.*, snacks for employees), personal funds should be used to cover the expenses.
- Require all SWW purchases be sufficiently supported by documentation. The documentation, at a minimum, should detail the item purchased, the cost of the item, the date of purchase, and an explanation as to why the item purchased was necessary for a business purpose.
- Require bills and invoices be paid in a timely manner.
- Utilize its tax exemption status when applicable.

Finding 4: Receipts Were Not Accounted For Properly

Auditors were not able to determine if all funds received were deposited due to numerous concerns. The noted concerns are as follows:

- Twenty days were selected to review. Of the 20 days, three cash deposits were short—one by \$4,044, another by \$455, and the last by \$100. The shortages were also not documented on check-out sheets.
- Four of the twenty days tested had missing receipts without justification.
- Five of the twenty days tested had credit card receipts that could not be traced to bank statements.
- Two of the twenty days tested had deposits that included three or more days of receipts collected.
- Three of the twenty days tested had abnormally long delays in receipts being deposited. For example, funds deposited on January 12, 2022, totaling \$20,133, were for funds received as far back as November 2021.
- Noted overages/shortages were not subject to investigation.
- Not all receipts from a given day were deposited in the same form as received. Instead, personal checks were cashed from the cash drawer that included those receipts.
- Differences in the cash/check amount per the daily checkout sheet and the cash/check amount deposited.
- Supporting documentation for deposits was not always maintained, increasing the difficulty in ascertaining how the cash drawer was balanced.

We recommend SWW do the following to ensure receipts are accounted for properly:

- Require all cash, check, and credit card deposits to be accounted for and supported by proper documentation.
- Require deposits to be made daily.
- Ensure the amount deposited coincides with applicable checkout sheets.
- Initiate timely investigations into suspicious financial activities, including but not limited to overages or shortages of funds, missing receipts, and credit card charges with no receipts for support.

Finding 5: Public Funds Were Improperly Utilized for Employee Bonuses

SWW dispersed bonuses to employees during the Christmas holiday. For FY 2021, bonuses totaled \$6,750. This amount increased to \$7,042 in FY 2022. OAG Opinion 62-1 (Appendix A) states the awarding of a bonus from public funds violates Section 3 of the Kentucky Constitution, as it uses public funds to pay for services not actually performed.

We recommend SWW cease using public funds to award employees bonuses in order to comply with the Kentucky Constitution.

Finding 6: The SWW Board Does Not Have Statutory Authority To Establish Fees

To offset the rising costs and upkeep of grinder pumps, all SWW customers with a grinder pump were charged a \$7 per month maintenance fee beginning July 1, 2023. When SWW started the implementation process, the fee was only approved by one board member and advertised in the newspaper. However, the implementation of this fee was illegitimate given the Board does not have any statutory authority to impose the fee. As recognized by KRS 83A.130(12), the power to impose a source of revenue belongs to the City Council, not the Board.

We recommend SWW consult with the City Attorney to determine proper corrective action(s).

Finding 7: SWW Engaged in Questionable Real Property Transactions

On May 30, 2022, the City sold property valued at approximately \$25,000 to SWW for \$1. SWW repeatedly used that property, plus two others, as collateral to obtain commercial loans with revolving lines of credit in amounts up to \$400,000. These transactions may violate state law.

The City solicited the opinion of the Kentucky League of Cities on this matter. First, because SWW was established and currently operates pursuant to KRS 96.320, the Kentucky League of Cities found that SWW is not a separate corporate entity entitled to hold real property in its own name. Rather, any real property should be held in the name of the City. Thus, the Kentucky League of Cities found the transfer of property from the City to SWW in 2022 was unlawful.

Second, the Kentucky League of Cities found SWW's mortgaging of the property, and the City's allowance of it, was in direct violation of KRS 96.540(3), which explicitly prohibits the City from encumbering SWW without either the assent of a majority of the City's legislative body or the majority of the total number of legal voters of the City. Based on the Kentucky League of Cities knowledge at that time, neither action had been taken. Consequently, it found the mortgage encumbering the property is unlawful.

In the course of this examination, auditors found City Council minutes from September 22, 2014, showing the City Council did, in fact, approve the transfer of the property from the City to SWW. However, the legitimacy of this transfer is still in question because SWW may not have any statutory authority whatsoever to hold real property in its own name. Moreover, even though this transfer was approved in 2014, it appears, based on conveyance documents auditors found, the transfer was not effectuated until almost eight years later, begging the question of whether the 2014 approval carried through to 2022.

The City Council minutes also reflect the fact that a representative of SWW informed the City Council at its September 22, 2014 meeting that SWW planned on encumbering the property with a loan after the transfer. The minutes, however, reveal only that the City Council approved the "transfer" of the property and say nothing about explicit approval of the encumbrance, which is required by KRS 96.540(3). Note also that the City has never, pursuant to that same statute, put the encumbrance of the property transferred to SWW to a vote of the City's citizens. Finally, mortgage documents found by auditors revealed SWW somehow encumbered the property with a mortgage and line of credit about a year *before* the City actually deeded the property over to SWW.

Based on the murkiness of the legality of these transactions, we recommend SWW consult with the City Attorney, Kentucky League of Cities, and Attorney General's Office for their opinions as to the legality of these transactions as soon as possible.

Finding 8: SWW Has Failed to Maintain A Sufficient Capital Asset Listing

SWW's capital asset listing does not provide descriptions, historical costs, or year of acquisition for any of the recorded assets. For example, trucks on the list simply state the make of the vehicle, but the model, year, or price are not provided. In addition, four buildings are included on the list even though, as discussed in Finding 7, SWW cannot hold real property in its name.

Governmental Accounting Standards Board's (GASB) Statement No. 34—the financial reporting standard for state and local governments—requires governments to maintain accurate and complete inventory records of their capital assets. Each record should include the asset's description, year of acquisition, method of acquisition (*e.g.*, purchase, donation, etc.), funding source, cost or estimated cost, salvage value, and estimated useful life. The inventory record will also need to identify the function(s) that use the asset.

Maintaining adequate and accurate capital asset records is essential for governmental entities to meet statutory requirements, produce adequate reports, and properly safeguard assets.

We recommend SWW ensure its capital asset list contains all required information and is frequently updated to reflect new acquisitions.

Finding 9: SWW Lacks Written Policies and Procedures

SWW did not have any written policies and procedures to create an organizational structure to follow on a day-to-day basis and to ensure financial transactions were properly handled, recorded, and documented. Without documented policies and procedures, SWW operated (financially and otherwise) without guidance and uniformity. SWW's activities were therefore inconsistent, weak, ineffective, and at risk of noncompliance with local, state, and federal laws and regulations.

Policies outline an agency's expectations, standards, and general plan for addressing issues. Procedures provide step-by-step guidance on how to carry out specific tasks to meet policy standards. Typical policies and procedures address a multitude of topics, including but not limited to:

- Procurement
- Safety and Security
- Code of Conduct
- Harassment/Discrimination
- Discipline and Termination
- Complaint Process
- Company Property Use

It is the responsibility of management to create an environment of operational and financial accountability and to ensure internal controls are not only in place but strictly followed.

We recommend SWW consult with the City Attorney to either adopt the City's policies and procedures or to develop or obtain from a hired third-party (*e.g.*, outside legal counsel) policies and procedures specific to SWW. Either way, the policies and procedures should be comprehensive and reflective of lawful practices and SWW's relevant standards. We also recommend all SWW personnel (and other relevant persons) receive training on the policies and procedures.

Finding 10: SWW Failed To Implement Segregation of Duties

SWW failed to implement segregation of duties. The Office Manager, with no supervision, is responsible for preparing bills, adjusting bills, accepting payments, posting payments, making deposits, and reconciling accounts. With such great responsibility on one individual, there is an increased risk for waste, fraud, or abuse to occur undetected. *See e.g.*, Findings 3 and 4.

Segregation of duties is an internal control that distributes responsibilities for key business processes across multiple people and departments. It is intended to reduce the risk of errors or fraud by ensuring one person or group does not have unchecked or excessive access over a process or asset. Put simply, segregation of duties prevents any one person from being able to initiate, approve, and review the same action.

We recommend SWW ensure proper segregation of duties and implement greater oversight of and accountability for fiscal operations. Duties that should be segregated among employees include, but are not limited to, writing checks, recording transactions in the accounting ledger or system, making deposits, and reconciling accounts to bank records in a timely manner. If unable to segregate duties properly, we recommend SWW implement compensating controls to lessen the risk created by lack of segregation of duties.

Appendices

Appendix A: OAG Opinion 62-1**OAG 62-1**

CITIES GENERALLY - Employees, bonus for

To: J. Gordon Lisanby, City Attorney, Princeton, Ky.
By: Walter C. Herdman, Asst. Atty. Genl., January 2, 1962

This is in answer to your telegram of December 27 in which you request an opinion as to whether or not it is legal for the City of Princeton to give a bonus to its city employees and policemen.

We must first consider the fact that the city is dealing with public funds and public employees. § 3 of the Kentucky Constitution prohibits the granting of separate public emoluments to any person or a set of persons except in consideration of public services. Now the employees referred to are paid a salary and this salary is required to be fixed by the city legislative body under the provisions of KRS 64.580 (1950). The granting or awarding of a bonus would seem to us to contravene the section of the Constitution referred to since it would seem to be using public funds for services not actually rendered.

Referring next to McQuillin, Municipal Corporations, Vol. 4, § 12.193, we find the general rule expressed regarding the granting of extra compensation as follows:

"Extra compensation is compensation over and above that fixed by contract or by law when the services were rendered. Where an officer performs duties imposed by law he is entitled to the compensation therefor fixed by law and no other. He is not entitled to extra compensation for services performed in the line of his official duty...."

In connection with the above quote, we refer you to the case of Ludlow Board of Education v. Ritchie, 149 Ky. 674, 149 S.W. 985 (1912). We also wish to refer you to the terms of KRS 64.410(2)(c) which prohibit a public officer from receiving for his services any fee for services not actually rendered and KRS 434.250 which prohibits any officer from paying any person any sum for services not actually rendered.

There is, of course, no prohibition against a city legislative body changing the compensation of city officers as fixed by it during their employment. This, however, would require an amendment to the ordinance setting forth the compensation of city employees.

Under the circumstances, therefore, we do not believe that the city is legally authorized to grant a bonus or additional compensation to city employees out of public funds over and above that amount fixed according to law.

Salyersville Water Works Response

City of Salyersville

P. O. BOX 640 • 74 EAST MAPLE STREET
SALYERSVILLE, KENTUCKY 41465-0640
(606) 349-2409 • Fax (606) 349-2449



January 2, 2025

Hon. Allison Ball
Auditor of Public Accounts
209 St. Clair St Frankfort, KY 40604

RE: Salyersville City's Response to Examination of Certain Financial Operations and Internal Policies and Controls of the Salyersville Water Works

To Whom It May Concern:

On behalf of Salyersville Water Works, please accept this letter in response to your "Examination of Certain Financial Operations and Internal Policies and Controls of the Salyersville Water Works."

Your draft report sets forth various recommendations for procedural improvements. It is important to note that many of the issues you raised occurred before the City of Salyersville took control of the SWW and have since been addressed. Additionally, other matters you have identified are currently being resolved.

CHAPTER 2: Findings

Finding 1: SWW Lacked Adequate Internal Control Structure

Internal controls are policies or processes that ensure an agency has reliable information, operates efficiently, complies with laws, and reduces the risk of fraud. It is the responsibility of management to create an environment of financial accountability and to ensure internal controls are not only in place but strictly adhered to.

During the examination, it was evident that SWW entirely lacked internal controls, creating a high-risk environment for undetected waste, fraud, and abuse. SWW engaged in poor security practices, leaving it vulnerable to fraud and other unlawful activities.

The City agrees with the recommendation of implementing an internal control structure. The City has created a strong internal control environment, segregated duties to the appropriate personnel, taken the necessary steps to ensure monies, credit cards, and all other financial materials are safely secured from unauthorized persons, established a purchase order procedure, reconcile bank accounts monthly and requires approval and supporting documentation for all adjustments to customers' bills.



Finding 2: Billing Adjustments Were Not Handled Properly

SWW did not have a policy outlining when an adjustment to a customer's bill would be appropriate and allowable.

The City agrees with this recommendation and is currently establishing a comprehensive policy on the adjustment of bills by SWW personnel. The policy will include:

- What adjustments are allowed and unallowed,
- How many adjustments can be made per year,
- Who can authorize adjustments, and
- What supporting documentation is required per adjustment

Finding 3: Insufficient Controls Led to Questionable Purchases

The City assumed jurisdiction over SWW due to its dismal financial condition and inability to pay bills. A contributing factor to SWW's financial struggles was questionable spending of public funds by SWW staff, as evidenced by numerous purchases that were excessive, predominantly personal, or lacking a clear business purpose.

The City agrees with this recommendation and has taken steps to address concerns regarding questionable spending and unsupported purchases. Moving forward, all purchases made with public funds will be carefully evaluated to ensure they are reasonable in amount, beneficial to the public, and not primarily for personal use. Furthermore, all SWW purchases will be processed promptly, and tax exemptions will be applied to eligible purchases.

Finding 4: Receipts Were Not Accounted for Properly

Auditors were not able to determine if all funds received were deposited due to numerous concerns.

The City agrees with the recommendation and has taken the following steps:

- Require all cash, checks, and credit card deposits to be accounted for and supported by proper documentation.
- Require deposits to be made daily.
- Ensure the amount deposited coincides with applicable checkout sheets.
- Initiate timely investigations of suspicious financial activities, including but not limited to overages or shortages of funds, missing receipts, and credit card charges with no receipts for support.

Finding 5: Public Funds Were Improperly utilized for employee bonuses

SWW dispersed bonuses to employees during the Christmas holiday for FY 2021 and 2022.

The City agrees with this finding and has stopped the use of public funds to award employees bonuses in order to comply with the Kentucky Constitution.

Finding 6: The SWW Board Does Not Have Statutory Authority to Establish Fees

To offset the rising costs and upkeep of grinder pumps, all SWW customers with a grinder pump were charged a \$7 per month maintenance fee beginning July 1, 2023. When SWW started the implementation process, the fee was only approved by one board member and advertised in the newspaper. However, the implementation of this fee was illegitimate given the Board does not have any statutory to impose the fee. As recognized by KRS 83A.130(12), the power to impose a source of revenue belongs to the City Council, not the Board.

The City agrees with this finding and has consulted with the city attorney. We are exploring ways to remedy the illegal action, including how to properly address those affected by the action.

Finding 7: SWW Engaged in Questionable Real Property Transactions

On May 30, 2022, the City sold property valued at approximately \$25,000 to SWW for \$1. SWW repeatedly used that property plus two others as collateral to obtain commercial loans with revolving lines of credit in amounts up to \$400,000. These transactions may violate state law.

The City agrees with the recommendation. The City has addressed the unlawful transfers of real property by transferring all real property back to the city.

Finding 8: SWW Has Failed to Maintain a Sufficient Capital Asset Listing

SWW's capital asset listing does not provide descriptions, historical costs, or year of acquisition for any of the recorded assets. For example, trucks on the list simply state the make of the vehicle, but the model, year, or price are not provided. In addition, four buildings are included on the list even though, as discussed in Finding 7, SWW cannot hold real property in its name.

The City agrees with the recommendation and will ensure its capital asset list contains all required information and is frequently updated to reflect new acquisitions.

Finding 9: SWW Lacks Written Policies and Procedures

SWW did not have any written policies and procedures to create an organizational structure to follow on a day-to-day basis and to ensure financial transactions were properly handled, recorded, and documented. Without documented policies and procedures, SWW operated (financially and otherwise) without guidance and uniformity. SWW's activities were therefore inconsistent, weak, ineffective, and at risk of non-compliance with local, state, and federal laws and regulations.

The City agrees with the recommended actions and will consult with both the City Attorney and a third party to develop policies and procedures specific to SWW and provide training to all SWW personnel.

Finding 10: SWW Failed To Implement Segregation of Duties

SWW failed to implement segregation of duties. The Office Manager, with no supervision, was responsible for preparing bills, adjusting bills, accepting payments, posting payments, making deposits, and reconciling accounts. With such great responsibility on one individual, there is an increased risk for waste, fraud, or abuse to occur undetected.

The City agrees with the recommendation to implement segregation of duties and has successfully enacted this measure. Responsibilities have been distributed among employees to include check writing, transaction recording in the accounting ledger, making deposits, and reconciling accounts with bank records.

If you have any questions or concerns, please contact my office.

Sincerely,

Karen Howard, City Clerk



Stanley Howard, Mayor

