



STATE OF WYOMING

DEPARTMENT OF AUDIT

PUBLIC FUNDS DIVISION

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Matthew H. Mead
Governor

Jeffrey C. Vogel
Director

Pamela Robinson
Administrator

July 2, 2015

Board of Directors
c/o Dick Rich
Salt Creek Water and Sewer District
P.O. Box 847
Newcastle, WY

Dear President Dick Rich:

We are issuing this audit report pursuant to the requirements of Wyoming Statute 9-1-507. This statute authorizes the Department of Audit to audit special districts. The district submits the Survey of Local Government Finances – F-32 (Census Report) providing financial information to the Department of Audit each fiscal year in accordance with Wyoming Statute 9-1-507 (a) (vii).

Objective: The purpose of our audit was to determine the Salt Creek Water and Sewer District was in compliance with Wyoming State Statutes and verify the accuracy of the census report.

Scope and Methodology: We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit was from July 1, 2013 to June 30, 2014 including the Census Report. We interviewed the board president and Bookkeeper from the Salt Creek Water and Sewer District. The following list of tests was accomplished during the performance of the audit.

- Traced selected other revenues in the census report from receipting to bank deposits
- Vouched selected expenditures in the census report to supporting documentation and district board approval
- Performed bank reconciliation and verification
- Reviewed utilities for accuracy in billing and collecting and are self supporting
- Reviewed the internal controls and computer controls
- Randomly and judgmentally sampled six utility customers to verify billing and payment accuracy, tested results are not projected against the entire customer population

Salt Creek Water and Sewer
July 2, 2015

Based on the procedures identified above, several possible violations of the State Statute were identified. These violations and additional findings are presented in the accompanying summary of findings and recommendations.

This report is intended solely for the use of the specified users listed; however, this report is a matter of public record and its distribution is not limited.

Public Funds

Public Funds

cc: Governor's Office
County Clerk

EXECUTIVE SUMMARY

The overall fiscal responsibility and accountability for the Salt Creek Water and Sewer District rests with the governing body. This audit focused on Wyoming Statutes and how the Salt Creek Water and Sewer District complied with them. The audit also determined the accuracy of the census report by reviewing supporting documentation. The areas specifically focused on were:

1. Compliance and Internal Controls
 - Compliance with selected Wyoming Statutes
 - Other compliance
 - Internal Controls
2. Accuracy
 - Cash, Investments, and Debt
 - Revenues from Utilities
 - Expenditures

Compliance and Internal Controls

Several possible violations of Wyoming State Statutes were identified: The Bookkeeper is the only bonded signatory on the District's bank accounts, there was a month during the audited year when the cash and investments for the district was over the FDIC standard insurance coverage limit of \$250,000 and that money was not adequately pledged, proper documentation and authorization was not obtained on some expenditures including perjury statements. There were no W-9's on file for the District's contracted employees. The proposed budget was not submitted to the Department of Audit (DOA), the budget hearing notice was not posted in accordance with State Statute as well as the actual budget hearing date. Regarding internal controls, the District did not maintain a policies and procedures manual; the district relied almost entirely on the bookkeeper with little oversight of the day to day activities of the accounting function for the District. This resulted in the Board not creating and maintaining a system of internal controls.

Accuracy

The District's reported financial information was not accurate. There were many inconsistencies and differences noted when comparing the Census report totals to the District's financial information. However, much of these differences appear to have been a result of the District not having much of its financial information available because of suspicion of financial software being manipulated by an outside 3rd party contracted during the scope of the audit. Additionally, the required follow-up paper work, the Internal Control Evaluation, Self Audit and Proof of Cash forms were not submitted to the DOA.

For more detail on the areas audited, refer to each specific section in the rest of the report.

COMPLIANCE AND INTERNAL CONTROLS

Policies and Procedures

The District did not have written policies or procedures. More specifically, there was not an accounting policy, investment policy (per W.S. 9-4-831(h)), disaster recovery policy, IT policy, or procedures in place to prevent or detect fraudulent activity. It was noted in the interview with the President, the board is currently working on an official disaster recovery plan for the District. The IT function showed while there are separate passwords for the computer and software utilities they are not updated routinely. Furthermore, backups of the computer are not performed consistently and kept in a secure location.

Recommendation: The District should create a policies and procedures manual. More specifically it should include an accounting policy, investment policy (per W.S. 9-4-831(h)), reimbursement policy, records retention policy, disaster recovery policy, IT policy, and procedures manual to prevent or detect fraudulent activity. The IT policy and procedures should include a maintenance schedule for computer equipment, password strength requirements and a timeline for how often a password must be updated (typically every 90 days) for both the operating system and the accounting software (QuickBooks, RVS), profile log-off requirements. It is also recommended backups of the computer should be performed routinely at least monthly after meter readings and bills have been sent out to customers. This backup should be stored in a secure location.

Lack of Segregation of Duties and Review

There was a lack of internal controls and Board involvement in District operations. Heavy reliance was placed on the bookkeeper to carry out the majority of the accounting functions of the District, resulting in insufficient segregation of duties. The following demonstrates the lack of Board involvement, review, and segregation of duties:

- The District accepts cash payments, while the payments are receipted there is not a review process in place to determine the amount receipted is the same amount deposited into the bank
- The Board presented a current bank statement but not a reconciliation to review
- During the month of July 2013 the cash and investments for the District exceeded the FDIC coverage of \$250,000 resulting in \$26,715.76 not fully secured by a pledge of collateral as stated in W.S. 9-4-18(c)(ii)
- The bookkeeper is the only authorized signature on CD 4598. Giving her complete control over the account for the District
- The Board appeared to not have reviewed all payments for accuracy as there was one contract employee that had submitted an invoice for \$1,305.15; however, the payment to this employee was \$1,905.15 and appears to have been overpaid \$600. There was no supporting documentation to explain the difference
- Only one of the three contractors that worked for the District had a written contract on file with the District
- Of the 187 expenditures tested, 28 (or 15%) did not have adequate supporting documentation and four did not have approval initials
- There was a missing invoice for a contracted employee for the month of August
- While the bills were approved in the minutes, there was not an itemized listing of the bills attached to the minutes
- Two of the twelve minutes did not have the proper signatures

Recommendation: It is the fiduciary duty of the Board of Directors to protect the assets of the District and to ensure the objectives of the District are being met. The Board's lack of involvement and review decreased the protection of District assets and increased the risk of material misstatement or fraudulent activity going undetected. The Board needs to take a more active role in the District, thoroughly reviewing the financials regularly, perhaps at the monthly meeting. Their review should include comparisons of District books to bank statements and a review of journal entries. Expenditures need proper approval, meaning they need to be reviewed and voted on at public meetings. In addition, the District should separate as many of the daily tasks as economically possible. Further, the Board should monitor all funds on deposit and take appropriate action if those funds exceed FDIC limits. It is also recommended the Board ensure proper supporting documentation is attached to all invoices for the District. Minutes should include an itemized invoice listing for the Board to review and approve. Finally, all minutes for the District's meetings should be signed by the President and the Bookkeeper.

Compliance

There were three signatories on the District's bank accounts; however, only the acting Bookkeeper held a surety bond on file with the district, which increases the District's liability risk. Additionally, W.S. 38-2-101 requires all public officers having custody of money to furnish a bond. The expenditures tested found 10 of the 159 invoices with supporting documentation did not have a signed perjury statement. There were no W-9's on file for the contracted employees. The IRS requires all contract employees to have a W-9 form filled out and kept on file to indicate the contracted employees taxpayer identification number and certification. The proposed budget for the district was not sent to the Department of Audit as required by W.S. 9-1-507 which indicates the district must send the proposed budget to the Department of Audit and the County Commissioners no later than June 1 of each year. Additionally, it appears the proposed budget hearing notice was posted 4 days before the hearing. W.S. 16-4-109(a) requires that the proposed budget be published at least one week before the hearing date. Furthermore, it appeared the budget hearing for the FY 2014 was held on July 29, 2013, seven business days after the 3rd Thursday in July. Statute 16-4-109(b) indicates that budget hearings must be held for special districts no later than five days after the 3rd Thursday in July.

Recommendation: Board members should familiarize themselves with Wyoming Statute, Wyoming Constitutional and IRS requirements that apply to the District. A signed perjury statement must be obtained for each expenditure. As the bills and checks are presented to the Board at each meeting for approval, it is recommended the Board President and one other Board member sign the checks for payment at that time. Ensure the District is adhering to all State Statutes when working on and reporting the budget each year.

ACCURACY

Utilities Tracking

There were weaknesses noted in the utilities as the District does not maintain a depreciation fund for the Water Sewer Utilities. The District did not have formal written policies and procedures over their utilities in relation to their monthly billings. More specifically, they did not have a written review process. Additionally, they do not have a specific utility report provided during the Board meetings. While these are not required for districts, due to the nature of findings and control weaknesses found these measures could have reduced the number of errors and inconsistencies found in testing.

While the RVS system can run reports for usage and billing purposes at the current time. The Bookkeeper was unable to produce reports from prior months or years. This made it difficult to look up prior usages, meter readings and billing information that had occurred in the past. Audit staff was able to extract information from the software after some time; however, this would not be an efficient method for the Bookkeeper to use as it took some time to replicate. In addition, because the financial software (QuickBooks) became compromised during the year, only partial information could be traced to the RVS software and deposits made at the bank. This resulted in a limitation of information that could be accurately verified as there was only four of the 12 months deposit detail which was able to be verified. Based on this information testing resulted in the following:

- Payment dates did not always correspond when the actual payment was made. It appears they are the dates when the payment information was entered onto the RVS system. This resulted in not being able to accurately track payments to ensure they are made in a timely manner. Because of the inaccuracies with the dates it was not possible to determine that the payments were applied to the correct billing statement.
- The January, March and April billing statements for tested clients indicated zero gallons of water used. This was due to errors in the RVS software. Payments were manually read and entered into the system. However, there was no supporting documentation to prove this.
- Appears the read date was incorrect for January for clients tested. The read date indicates it was read in June of 2014.
- Of the 1,850 utility payments entered onto the RVS utility software, 1,246 payments could not be traced to a deposit slip on the bank statements. This was a result of the compromised QuickBooks software.
- A payment made by a customer check for the 8/10/13 payment of \$130.00 does not match the QuickBooks Detail Deposit for the same month, which lists the payment of \$65.00. It appears they were applying \$65.00 to a past due account as their prior month indicated they owed \$65. However, there is no supporting documentation or notes within the accounting software to indicate the adjustment.
- A payment made by a customer on 9/27/13 appears to be for \$322 on the QuickBooks deposit detail. This payment was split between two properties listed in the RVS system. The first for \$160 and the second for \$127 for a total of \$287, which is \$35 less than the QuickBooks payment. It appears they were applying the \$35 to a late account. However, there is no supporting documentation or notes within the accounting software to indicate the adjustment.
- Payment applied to the RVS system for a customer on 8/27/13 is not located on the QuickBooks detail. It would appear that they are applying a credited balance towards his payment. However, there is no supporting documentation or notes within the accounting software to indicate the adjustment.

- There were four payments found on the QuickBooks detail that were not located on the RVS software. It was found the meter for a construction company is not compatible with the RVS system and is manually read. There was not any saved documentation concerning billing with them, resulting in a lack of proper documentation.
- A deposit was made on the QuickBooks for a Sewer install on the client's property. However, there was not adequate supporting documentation in the Districts records.
- There was \$53,372.30 more in deposits made to the bank than total payments on the RVS software. This appears to be due from errors and poor bookkeeping.

Recommendation: While not required for the District, the board should discuss the need for a depreciation fund or schedule for their water and sewer utilities. This would include setting up a schedule to distribute the cost or other basis of tangible, capital assets over the estimated useful life of water and sewer systems. A depreciation fund provides the District a way to accumulate funds during the useful life of the asset. When the time comes to replace the asset, the District will have the adequate funds necessary to do so. Additionally, the district should developed an accounting and procedures manual to detail out all the steps necessary to accurately track and record utility billing and payments. Furthermore, the board should become more actively involved in reviewing utility reports to ensure they are accurate.

Because the RVS software is difficult to run reports that happened in the past, the Bookkeeper should run and maintain a billing report as well as a usage report at the end of each billing cycle. This will give a more accurate listing of clients and will help track customers that have past due amounts. Additionally, if the RVS system does not accurately read the meters correctly and they are read manually by an employee, the district should document the process and readings for those months and maintain a log on record to indicate the hand-taken meter readings. This would also be applicable to any meters maintained by the District that are not electronically read. Because the QuickBooks was not accurate for the FY audited, the district should ensure that the newest version of QuickBooks currently in use by the district is accurate and complete for future use. If it is possible to link the RVS system and QuickBooks together, the reports can be uploaded onto the QuickBooks each month. This may help with tracking of utilities for each person. You may need to contact your IT person to assist if this would be possible.

Census Reporting

There were many inconsistencies noted when reviewing the financial material of the District and the Census report submitted to the DOA. Many of these differences appear to be attributed to the financial software being corrupted and lost during the fiscal year. However, using the bank statements for the district, audit staff was able to compare deposits and checks written by the district to items listed on the Census Report. The following demonstrates the differences found:

- Interest earnings reported on the Census Report are nine times as much or \$6,598.30 more than those found in the bank statements. It was determined this was an error when filling out the Census
- The remaining debt reported on the Census report for the District was listed as \$472,686, confirmation with third parties regarding the debt showed a balance of \$572,089. This resulted in a under reporting the outstanding debt by \$99,403. This appears to be an error when filling out the Census
- Total expenditures were \$202,593 on the Census Report and \$176,717.41 on bank statements, an overstatement of \$25,875.59 on the Census Report. It was determined that the Bookkeeper estimated total expenditures due to the QuickBooks not being complete for the FY

- Expenditures categorized as bookkeeping were reported as 84% of expenditures on the Census Report, but judged to be 9% of bank statement expenditures. The remaining 75% should be classified as operations. It was determined to be an error in report submission
- The Revenues were under reported by \$10,933.62 or 6% difference from what was found on the deposits made in the bank statements for the fiscal year. It appears to be an error in reporting.
- The District did not submit any follow up paper work as required. This would include the Internal Control Evaluation and Self Audit and Proof of Cash forms.

Recommendation: When documents prepared by the District do not agree, it indicates to the public the District is not fairly representing the financial information of the District. It can decrease public confidence in the management of the District as well. A written procedure on how to fill out the Census Report and any follow-up paperwork should be created and maintained in the District office, in order to guide personnel on the proper reporting of District financial information. This should be included in the accounting manual previously mentioned. Once the Census and all applicable reports have been filled out, the board should review all information to determine the accuracy before submitting to the Department of Audit. If the District cannot accurately fill out the information they can contact the Department of Audit for further guidance.

November 20, 2015

From: Salt Creek Water District

Box 847

Newcastle, WY 82701

To: Department of Audit

Herschler Building, 3rd Floor East

122 West 25th Street

Cheyenne, WY 82002

Transmitted by email to: pam.robinson@wyo.gov

Re: Your letter of July 2, 2015

Following is information concerning the issues addressed in your letter of July 2, 2015.

A copy of the Surety Bond was provided to the Department of Audit along with this response

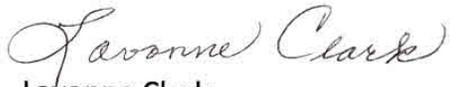
- The Board of Directors are bonded with a Public Officials Position Schedule Bond. A copy of the bond is not generally mailed unless requested but is kept in force as the bond is paid yearly. We have obtained a copy of the bond and is attached to this letter.
- W-9 forms for contract employees will be obtained as none can be found on file.
- We have a weekly newspaper, sometimes the printing of budget hearings

are not always correct.

- The passwords and backups of the utilities will be taken care of as recommended in your letter.
- The payment of \$322.00 was paid for three accounts, Shuck Stock, Phil Shuck (\$35.00) and Jeff Shuck.
- The self audit and proof of cash will be submitted for the following year.
- The signatures on all bank accounts were taken care of and can be verified with the bank.
- The overpayment of \$600.00 on one employee voucher and corresponding check was for backup operators for Water and Sewer and should have been added to his voucher.
- The minutes will be signed in the future as recommended.
- The payment that was made for \$130.00 and recorded as \$65.00 is a result of a customer paying for two different accounts at \$65.00 each.
- The Board reports they are working on the required policies and procedures manual.
- Contracts for employees have been taken care of and copies are attached to this letter. Department of Audit obtained copy of contracts for employees with this response
- Board member signatures will be made on the minutes of future meetings.
- The \$53,372.30 more in bank deposits than shows in the RVS system is due to the fact that the RVS system was only available for part of the year as the DCI was in possession of the computer for nearly six months. The balance of the year was billed through the Quick Books only. There is no manual reading of meters. If an account shows a zero usage or no reading, the customer is still charged the minimum billing of \$35.00 and is manually entered.
- When cash payments are received a hand written cash receipt is made. The cash receipt book was provided for review.

- A bank reconciliation can be provided for the bank statements in question if we can be provided the dates needed.

Please advise if additional information is needed.

A handwritten signature in cursive script that reads "Lavonne Clark".

Lavonne Clark

Salt Creek Water District