

RESOLUTION NO. 617

A RESOLUTION ADDRESSING THE CONCERNS OF CONDITIONS OF THE FISCAL YEAR '85-'86 AUDIT.

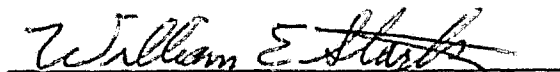
WHEREAS, the city staff has prepared a report on the above captioned subject which is attached hereto as Exhibit "A"; and

WHEREAS, the City Council has duly considered the subject and the recommendation(s) contained in the staff report; and

WHEREAS, interested parties, if any, have had an opportunity to be heard on the subject.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Wilsonville does hereby adopt the staff report attached hereto as Exhibit "A", with the recommendation(s) contained therein and further instructs that action appropriate to the recommendation(s) be taken.

ADOPTED by the City Council of the City of Wilsonville at a regular meeting thereof this 1st day of June, 1987, and filed with the Wilsonville City Recorder this same date.



WILLIAM E. STARK, Mayor

ATTEST:

Vera A. Rojas
VERA A. ROJAS, City Recorder

SUMMARY of Votes:

Mayor Stark	<u>AYE</u>
Councilor Gardiner	<u>AYE</u>
Councilor Clarke	<u>AYE</u>
Councilor Edwards	<u>AYE</u>

CITY
OF
Wilsonville

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Wilsonville, Oregon 97070

CONSENT AGENDA

JUNE 1, 1987

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: RAY SHORTEN, FINANCE DIRECTOR *RS*
RE: FY 1985-86 AUDIT CONCERNS OR CONDITIONS

Attached please find a copy of the letter from our auditors, Gregor Professional Corporation, which addresses the evaluation performed in accordance with the 1985-86 audit. Several conditions and recommendations were suggested and this memo shows how the Finance Department has met those obligations.

CONDITION: PURCHASE ORDERS, ENCUMBRANCE ACCOUNTING AND EFFECTIVE CASH PLANNING

ACTION TAKEN:

This condition is not as perceived by the auditor. A purchase order system is in place with pre-numbered purchase order forms. This has been in existence for a number of years. However, with the new computer system, the City now has the capability to encumber funds and project cash flow needs effectively. This procedure was complete during FY 1986-87.

CONDITION: INTERFUND TRANSFERS

ACTION TAKEN:

The practice of using interfund transfers for salaries will be greatly reduced for the FY 1987-88 budget. Transfers will be made on a quarterly basis and have corresponding line items to provide a clear audit trail.

CONDITION: DEFICIT FUND BALANCES

ACTION TAKEN:

After researching this matter, deficit expenditures were limited to the Systems Development fund. This fund did not budget any amount for the City portion of the LID assessments. These amounts have been budgeted for FY 1987-88. Encumbrance accounting was incorporated and in place for FY 1986-87.

CONDITION: BONDED AND UNBONDED ASSESSMENTS RECEIVABLE

ACTION TAKEN:

Subsidiary ledgers are reconciled to the General Ledger on a monthly basis. Adjustments are booked as needed and interest amounts reconciled to monthly reports. The City does not strictly adhere to formal policies for handling delinquent accounts relating to LID assessments until foreclosure proceedings are initiated. However, all accounts are monitored for delinquency.

CONDITION: WATER DEPOSITS

ACTION TAKEN:

Delinquent water accounts are being monitored more closely, and a deposit for water connection will be initiated as soon as the process to establish this function is completed.

CONDITION: FIXED ASSETS

ACTION TAKEN:

A computer program for Fixed Assets was scheduled to be on line in FY 1986-87. Due to the high volume of activity during the year, staff time was not available to undertake this lengthy process. However, detailed project files are being established and maintained on all current construction projects by the Finance Department. These files are kept updated and compared to monthly report encumbrances on expenditures.

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EUGENE, OREGON 97401-3174



GREGOR PROFESSIONAL
CORPORATION

503/686-8777
TELEX 36-4421
GREGOR-EUG

December 2, 1986

Honorable Mayor and City Council
City of Wilsonville
Clackamas and Washington Counties, Oregon

We have examined the general purpose financial statements of City of Wilsonville, Oregon, for the year ended June 30, 1986, and have issued our report thereon dated December 2, 1986. As part of our examination, we made a study and evaluation of the system of internal accounting control of City of Wilsonville, Oregon, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- A: Cycles of the Entities' Activity
 - Revenues/Cash receipts
 - Expenditures/Cash disbursements
 - External financial reporting
- B: Financial Statement Captions
 - Cash and investments
 - Receivables
 - Land, property and equipment
 - Deferred revenues
 - Fund balance
- C: Accounting Applications
 - Cash receipts
 - Cash disbursements
 - Purchasing and receiving
 - Payroll
 - Property and equipment
 - General ledger

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of City of Wilsonville, Oregon, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

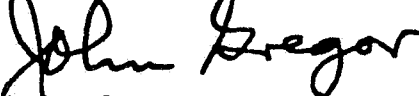
Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of City of Wilsonville, Oregon, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of City of Wilsonville, Oregon, may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1986 financial statements, and this report does not affect our report on the financial statements dated December 2, 1986.

GREGOR PROFESSIONAL
CORPORATION

This report is intended solely for the use of management. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Oregon Division of Audits, is a matter of public record.

Very truly yours


John Gregor
President

CONDITIONS AND RECOMMENDATIONS

Purchase Orders, Encumbrance Accounting and Effective Cash Planning

CONDITION:

It is the City's current practice to record expenditures when checks are issued. A rudimentary purchase order system is in place but the integrity of the system is diminished due to the lack of pre-numbered requisition forms. These forms are completed after the receipt of merchandise ordered. Because no record is maintained of outstanding purchase commitments, the City cannot project interim or future cash flow needs effectively.

RECOMMENDATION:

We recommend the City explore the possibility of integrating budgetary, or encumbrance accounting into its record-keeping system. Budgetary accounting techniques are an extremely important control aspect of accounting for governmental funds, since the annual budget is a legal compliance standard against which the operations of such funds are evaluated. Integration of budgetary accounting, utilizing a purchase order system, can be a powerful management tool.

During interim periods, an encumbrance system can provide useful information to the City's management. For example, an effective system can assist in determining the remaining amounts of cash which are available for expenditure by budget category. Also, by knowing when and how much will be required to pay current and future expenditure commitments, more effective cash investment policies may be implemented which, in turn, can lead to higher interest earnings for the City.

Interfund Transfers

CONDITION:

Interfund transfer categories and amounts in the City's adopted budget do not always match the amounts or categories shown in the City's appropriation resolution adopting the budget.

RECOMMENDATION:

We recommend that interfund transfers be traced to both the disbursing and the receiving fund to verify that the approved budgeted amount has been posted.

CONDITIONS AND RECOMMENDATIONS
(continued)

Deficit Fund Balances

CONDITION:

During our examination we found instances of deficit fund balances. These were found to be the result of over expending appropriations as well as under realizing estimated revenues.

At the present time, periodic review and assessment of the current status of individual funds is very difficult as the City's finance department is understaffed.

RECOMMENDATION:

We recommend an addition to the new computer system be acquired and installed, if available, which will provide: 1) encumbrance accounting for budgetary control, and 2) error messages to the clerk when encumbrances will exceed budgetary allowances. Upon discovery of an overexpenditure, steps should be taken to transfer monies from other funds to cover the overexpenditure as provided for in ORS 294.326.

Also, additional accountants, trained in accounting systems for cities, should be hired.

Bonded and Unbonded Assessments Receivable

CONDITION:

During our examination, we found that the totals of the subsidiary ledgers for bonded and unbonded assessments did not agree with the general ledger. We was also found the City does not strictly adhere to formal policies for handling of delinquent accounts.

RECOMMENDATION:

We recommend that subsidiary ledgers be reconciled to the general ledger on a monthly basis and adjustments be booked as needed. We also recommend that the City establish formal collection policies for delinquent accounts and that someone follow up on these delinquent accounts on a regular basis.

It is suggested that the amount of interest collected each month be reconciled at the same time, in order to assure that the interest collected has been credited to the proper general ledger account.

CONDITIONS AND RECOMMENDATIONS
(continued)

Water Deposits

CONDITION:

During our examination we found excessive delinquent accounts related to the water fund. Many of these accounts are still on the books after six months. No effective steps have been taken to control these accounts. The reason for this problem appears to be one of policy. There is no current provision for requiring a deposit for water connection.

RECOMMENDATION:

We recommend that the City of Wilsonville establish a policy to charge a deposit for connection of water services. A control list should be established by making a list of all deposits, adding to it for new deposits and eliminating entries on the list when deposit refunds are made. It is suggested that the operation would be simplified if the City were to adopt a policy of automatically refunding deposits after two years of satisfactory payment experience with the customer.

Fixed Assets

CONDITION:

Construction in process and fixed asset records are inadequately maintained with respect to total expenditures by project and the fund from which the expenditures are made.

RECOMMENDATION:

Detailed schedules should be prepared on a fiscal year basis to show progress for each identifiable project. All project expenditures should be traceable to the contract or the subsequent modifications thereto. The City should be able to immediately determine the remaining work or expenditure commitments required for each project, and that contractor interim invoices properly reflect this amount. Also, these expenditures should be identifiable with respect to the source of the payments.