



**Office of the Washington State Auditor  
Pat McCarthy**

March 16, 2017

City Council Members  
City of Mill Creek  
Mill Creek, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial audit of the City of Mill Creek from January 1, 2015 through December 31, 2015. We believe our recommendations will assist you in improving the City's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (425) 948-7401 ext. 102.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Kristina Baylor, Audit Manager

Attachment

Management Letter  
City of Mill Creek  
January 1, 2015 through December 31, 2015

**Financial Statement Preparation**

The City is responsible for designing, implementing and maintaining internal controls to ensure financial statements and related notes and schedules are fairly presented and provide reasonable assurance regarding the reliability over those statements. Our review of the financial statements and schedules noted a deficiency in the City's internal controls over the preparation and review of the financial statements. Specifically, the City did not perform an independent review and reconciliation of the financial statements to ensure they were accurate, complete and properly supported.

The City experienced significant turnover in key finance personnel during the period. The senior accountant responsible for preparing the financial statements left the City and as a result the city hired the former Finance Director on contract to prepare the City's financial statements and notes. The City hired a new Finance Director in May of 2016, subsequent to the preparation and submission of the financial statements. While our audit found an informal review of the financial statements was conducted with the former Finance Director and the City's two Accounting Specialists, this review included discussion over how the statements and schedules were prepared and did not include a detailed review by someone independent of the preparation process.

As a result of the control deficiency identified above, we found the following errors that, while not material, required subsequent correction by the City.

- Note 1, Summary of Significant Accounting Policies, Part C: Budgets: The amount of expenditures for the Surface Water Utility fund and the Recreation Enterprise fund did not tie to the amounts reported on the financial statement.
- The City is reporting one special revenue fund that has less than 20 percent of its revenues coming from a dedicated source. Based on GASB Statement No. 54 requirements this fund should be either rolled into the general fund or be removed as a special revenue fund all together.

We recommend the City strengthen its internal controls over the preparation of financial statements by having an independent person perform a detailed review and reconciliation of the financial statements to ensure they are accurate, complete and properly supported.



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**Software System Review**

The City's Police Department converted to a new software system in October of 2015. The Department uses this software, to track property room evidence, issue concealed weapons permits, and animal licenses. The City maintains roughly 600 items in its property room. Additionally, between November 1, 2015 and July 31, 2016 the City received \$15,544 for animal licenses, concealed pistol licenses, and parking tickets. We reviewed the City's use of the software from its implementation date through our audit date.

Local governments have a responsibility to exercise due care by verifying data from a software conversion is complete and accurate. The City should also take steps to ensure the new software is processing transactions correctly and that user accounts and security settings are appropriate. Our review of the City's software conversion identified the following weaknesses in internal controls:

- The Department did not conduct a property room audit to ensure that all inventory was properly recorded in the new system.
- The new software has an audit function that allows a reviewer to see changes and deletions made to property room inventory. Although the audit function is enabled, the audit report is not being reviewed by an independent party.
- The Police Department records permits and licenses in the new software system and receipts the related fees in the general ledger; however, no reconciliation is performed between the software system and the general ledger to ensure all transactions are recorded in both system.
- The City does not have a procedure in place to ensure a regular, independent review of user access levels in the new software system.

As a result of the control weaknesses identified, we discovered seven discrepancies between information reported in the new system and items verified in the property room. Specifically, we were unable to locate recorded jewelry, firearms, drugs and \$20 cash.

We recommend the City:

- Perform a property room audit to ensure all inventory is properly recorded in the new system.
- Perform a regular independent review of the audit report in the new software system.
- Strengthen its internal controls over the safeguarding of public resources by performing a regular reconciliation of cash receipts between the new software system and the general ledger.
- Ensure user access levels in the new software are appropriate.

## **Credit Cards & Procurement Cards**

We reviewed the City's policies and procedures for tracking and monitoring the use of its 10 credit cards. During fiscal years 2015 and 2016, the City's credit card expenditures were \$81,606 and \$23,120, respectively.

Our audit found the following weaknesses in internal controls:

- The City has not updated its policy for the purchase of goods and services using credit cards since 1991 and it does not include language for paying credit card bills and recovering disallowed charges.
- Though the City does review credit card purchases, the review process is not adequate to determine whether each purchase represents a valid use of public funds and that underlying records provide adequate support.

We tested 104 credit card transactions totaling \$18,381 and found:

- Two purchases did not have receipts to support the validity of the transactions totaling \$65.
- Twelve instances where employees purchased meals for people who did not work for the City, totaling \$901. The City does not have a policy for having meals with meetings and we were unable to verify the business purpose of these transactions.
- Two instances where employees over-tipped on meals totaling \$19. Per City policy: "Payment for table service at a restaurant, commonly referred to as a tip, is reimbursable but may not exceed 15% of the restaurant price of the meal".
- Two instances where the City compensated volunteers for a basketball tournament with gift cards and food totaling \$845.
- Finally, we found the City spent \$3,535 on employee recognition and appreciation gifts such as gift cards, pens, and jewelry. The City has no employee recognition policy, therefore, such recognition and appreciation is a potential gift of funds or prohibited extra compensation.

We recommend the City strengthen its internal controls over the safeguarding of public resources by:

- Updating and/or developing formal written policies that govern the use of City funds to purchase items for employee appreciation and recognition, meals with meetings and volunteer compensation.
- Performing adequate monitoring of credit card transactions to ensure that employees maintain all receipts and support to verify the validity and business purpose of each transaction.