



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 10, 2007

Thomas W. Reynolds
Mayor
1140 Club Road
Waynesboro, VA 22980

Dear Mr. Reynolds:

We have reviewed the Commonwealth collections and remittances of the Treasurer, Commissioner of the Revenue and Sheriff, of the City of Waynesboro for the year ended June 30, 2007. Our primary objectives were to determine that the officials have maintained accountability over Commonwealth collections, established internal controls, and complied with state laws and regulations.

The results of our tests found the Commissioner of the Revenue and Sheriff did comply, in all material respects, with state laws, regulations and other procedures relating to the receipt, disbursement and custody of state funds.

The Treasurer did not maintain sufficient internal controls over state funds, or comply, in all material respects, with state laws and regulations as described below and did not properly receipt and account for restitution received as described below.

STRENGTHEN INTERNAL CONTROLS

As we reported last year, the Treasurer does not maintain an adequate internal control system for her office. These inadequacies have lead to prior improprieties and misappropriation of funds and the current situation could allow these problems to continue.

The Treasurer has responsibility for establishing and maintaining internal controls and complying with applicable laws and regulations. Internal control is a process to provide reasonable, but not absolute, assurance regarding the protection of assets, reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Specifically, we noted the following areas needing improvement.

Properly Secure Payments

The Treasurer and her staff leave collections on the counter unsecured, which makes them susceptible to loss or theft. The Treasurer and her staff should secure payments when received in a locking drawer and not having them on the counter where they could be lost or stolen.

Properly Record Penalty and Interest

The Treasurer does not properly record penalty and interest consistently into an official accounting system nor is the penalty and interest calculation by the Commissioner of Revenue included as part of the assessment. Failure to properly record interest and penalty could result in the loss of revenue to the Commonwealth, and result in the taxpayer improperly assuming they have paid the entire amount they owe the Commonwealth. The Treasurer should appropriately record penalty and interest to ensure that it agrees monthly to the state's Commonwealth Accounting and Reporting System (CARS).

Properly Document/Secure Manual Receipts

Normally, the Treasurer and her staff record all transactions directly into the accounting system, which can provide a receipt for any collection. The use of manual receipts is reserved for unusual transactions which the Treasurer and her staff can not immediately enter into the accounting system. After issuing a manual receipt, the Treasurer and her staff must manually enter the transaction into the accounting system, increasing the risk of errors and other data entry problems in recording the receipt.

The Treasurer should have controls in place to minimize the use of manual receipts to guarantee the Treasurer and her staff properly records all transactions later in the system properly. In order to achieve this objective the Treasurer should physically safeguard the manual receipts until needed. Controls over usage of manual receipts should also be established, documenting daily the beginning and ending numbers of all manual receipts used and including on each receipt the signature or initials of the person responsible for taking the payment. We further recommend the Treasurer use pre-numbered receipt books preprinted with the City of Waynesboro on them.

Maintain Proper Accounting Records and Perform Monthly Reconciliations

The Treasurer failed to maintain appropriate accounting records for taxpayer payments as required by Code of Virginia 2.2-806(A), sound business practices and generally accepted accounting principles. Without such records, the Treasurer was unable to provide accurate balances for collections and uncollected taxes at time of audit.

Additionally, the Treasurer did not reconcile state income tax assessments, collections and uncollected balances to the state's Commonwealth Accounting and Reporting System (CARS) for the entire fiscal year. The Department of Accounts provides monthly reports to Treasurers so that they can reconcile the amounts recorded by the Commonwealth. Failing to maintain records and perform monthly reconciliations is a significant internal control weakness which brings into question the reliability, effectiveness and efficiency of the office.

The Treasurer should maintain proper records of state funds received and should reconcile these records to the assessments and collections recorded in CARS pursuant to Code of Virginia Section 58.1-3168. This will ensure complete and accurate recording of state tax assessments and collections. Implementation of an automated system for recording tax payments received would assist the Treasurer in daily reconciliation and also monthly reconciliations to CARS.

Remit Tax Collections Timely

The Treasurer did not remit state tax collections as required by the Code of Virginia section 2.2-806(A) which requires treasurers to remit all tax collections within one banking day of receipt. We had difficulty agreeing collections from daily transmittals to Deposit Certificates. We found deposits were one to three days late. The Treasurer should remit all state tax collections as required.

Send Commonwealth Fees Promptly

We found the Treasurer had not sent the Commonwealth two months of Sheriff fees, which totaled \$1132.39. Additionally, we found Worker's Compensation Fees in the amount of \$120 recorded to a local account and not sent to the State.

Contributing to not sending payments to the Commonwealth is the Treasurer not doing timely reconciliations to find these errors. Section 2.2-806B of the Code of Virginia requires Treasurers to remit fees weekly, or twice each week when collections exceed \$5,000. The Treasurer should send fees as required by the Code of Virginia.

PROPERLY ACCOUNT FOR RESTITUTION RECEIVED

As a follow up of the prior audit in which there was a loss of funds due to a theft from the Treasurer's Office, the auditors determined the Treasurer receipted funds received in payment of restitution into a local "Miscellaneous" fund in the amount of \$23,723.57 on May 23, 2007. As of the completion of this audit, the Treasurer has not applied these payments to the individual taxpayers and Commonwealth accounts affected by the theft. The Treasurer should credit the affected accounts immediately to ensure the taxpayers' accounts reflect accurate balances.

We discussed these comments with the Treasurer on September 25, 2007 and we acknowledge the cooperation extended during this audit.

Sincerely,

Auditor of Public Accounts

WJK:clj

cc: Douglas C. Walker, City Manager
Sandra F. Dixon, Treasurer
Donald R. Coffey, Commissioner of the Revenue
Joe Harris, Jr., Sheriff