

**CITY OF WAYNESBORO
REPORT ON REVIEW
OF
COMMONWEALTH REVENUES**

**FOR THE PERIOD
JULY 1, 2007 THROUGH JUNE 30, 2008**



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AUDIT RISK ALERT

The following audit findings are essentially the same over the last three audits, and coupled with the material weakness findings reported by the City's independent auditors, we have concerns over the Treasurer's failure to correct these matters and those in the City's annual audit report. Many of the findings below duplicate findings in the City's annual audit report and represent fundamental basic internal controls necessary to prevent accounting and posting errors, loss, and misuse of fund entrusted to the Treasurer.

These fundamental basic internal controls are also the means for providing accurate and timely information to taxpayers, city financial decision makers, and other governments. Having these internal controls demonstrates accountability, and when properly applied increases efficient and effective service to the public.

We strongly encourage the Treasurer to correct the findings below and those found in the City's annual report. Without correction, we believe that the Treasurer increases her risk of accounting and other bookkeeping errors as well as the loss of funds occurring and going undetected.

STRENGTHEN INTERNAL CONTROLS

The Treasurer does not maintain an adequate internal control system for her office. The Treasurer does not use the in-house system that is available to receipt or maintain records of state and estimated income taxes. Internal control is a process that provides reasonable, but not absolute, assurance to have reliable financial reporting, maintain effectiveness and efficiency of operations, and comply with applicable laws and regulations.

Specifically, we noted the following areas needing improvement.

- **Properly Secure Mail Payments**

The Treasurer should secure mail payments. If the Office receives payments, but cannot immediately open and receipt them, then the Treasurer should secure these items by placing them in a locking drawer. Staff should not leave these payments unattended on a desk where they could be lost or stolen.

Additionally, the Treasurer should ensure a separation of duties when processing mail payments so that no one person has sole access to the payments and posting and recording of the transactions. The same staff person should not open, record, and deposit mail payments.

- **Properly Classify Penalty and Interest**

The Treasurer is improperly recording penalty and interest into an official accounting system. Failure to properly record penalty and interest could result in lost Commonwealth revenue and improper notice to taxpayers of additional tax liability. The Treasurer should appropriately record and reflect penalty and interest to ensure that it agrees monthly to the state's Commonwealth Accounting and Reporting System.

- **Properly Document/Secure Manual Receipts**

The Treasurer does not have control over manual receipts to ensure their proper use and subsequent recording of payments into the accounting system. Manual receipts provide staff the opportunity to take payments, but does not provide the same system controls to record the taxpayer's payment and inclusion in a deposit. Staff should document the usage of manual receipts daily, including beginning and ending numbers on the end of day reconciliation sheet along with a supervisory approval. Failure to control and properly use manual receipts increases the risk of accounting and bookkeeping errors and loss of funds.

- **Maintain Proper Accounting Records**

The Treasurer failed to maintain appropriate accounting records for taxpayer payments as required by Code of Virginia 2.2-806(A), and sound business practices. Without such records, the Treasurer cannot provide accurate balances for collected and uncollected taxes.

- **Perform Monthly Reconciliations**

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 audit period. The Treasurer has been unable to correct the unreconciled balances of state taxes on CARS since 2004. The Department of Accounts provides monthly reports to Treasurers for the purpose of ensuring the accuracy of the accounting records and making sure taxpayers receive credit for their payment. 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.

- **Remit Fees Promptly**

Due to the Treasurer's inadequate recordkeeping and accounting practices, and lack of attention to detail, the auditors found numerous remittance errors. Specifically, we noted the following.

- Three-month delay in remitting \$479.97 for 2008 Sheriff fees to the Commonwealth
- Twelve-month accumulation of 2008 Worker's Compensation Fees for \$72 not yet remitted to the Commonwealth
- Over-remittance of \$2,756.03 in locality monies to the Commonwealth
- Prior year balance of \$321.50 for Sheriff Fees not yet remitted to the Commonwealth

Section 2.2-806B of the Code of Virginia requires Treasurers to deposit fees weekly to the Commonwealth. Should collections exceed \$5,000 within the week, Treasurers should deposit fees at least twice each week.

The Treasurer should maintain proper records of all funds received and should reconcile these records to the assessments and collections recorded in CARS pursuant to Code of Virginia Section 58.1-3168 and the City accounting records as expected by sound accounting practices. This process will ensure complete and accurate recording of local and state tax assessments and collections.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

August 27, 2008

Timothy D. Williams
Mayor
418 Dinwiddie Avenue
Waynesboro, VA 22980

City of Waynesboro

Dear Mr. Williams:

Scope of Work

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, 2008. 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.

Overall Audit Findings

The results of our tests found all of the constitutional officers, except the Treasurer, complied, in all material respects, with state laws, regulations and other procedures relating to the receipt, disbursement, and custody of state funds.

Treasurer's Audit Findings

The Treasurer did not maintain sufficient internal control over state funds as described in the Audit Risk Alert on pages one through three.

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

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect an error or fraud in a timely manner.

- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably and there is more than a remote likelihood that an error or fraud of more than an inconsequential amount will not be prevented or detected by the entity's internal controls.
- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material error or fraud will not be prevented or detected by the entity's internal controls.

We believe the matters discussed in this report are material weaknesses in internal control. In our judgment, these material weaknesses could potentially result in the loss of state and city funds, or otherwise compromise fiscal accountability and go undetected.

We discussed this report with the Treasurer for the City of Waynesboro on August 19, 2008. We acknowledge the cooperation extended to us during this review.

Sincerely,

Auditor of Public Accounts

WJK: clj

cc: Michael G. Hamp, II, Interim City Manager
Sandra F. Dixon, Treasurer
Donald R. Coffey, Commissioner of the Revenue
Joe Harris, Jr., Sheriff



CITY OF WAYNESBORO

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August 26, 2008

Kathleen M. Kimmel, CPA, CGFM
Director, Judicial Systems
Auditor of Public Accounts
101 N. 14th Street, 8th Floor
Monroe Building
Richmond, VA 23219

Dear Ms. Kimmel,

When taking over as treasurer for the City of Waynesboro I knew that it was going to be a difficult task in learning all that there is to know and to be able to maintain a smooth running office on a daily basis. The following are responses that I have concerning the audit that occurred in my office just recently.

Strengthen Internal Controls: *The in-house system that was developed for the Commissioner of the Revenues Office has been installed in my office as well with the hopes that most of the reports that are generated will be easily accessible and will make balancing all of the reports more understandable. I have spoken with the Commissioner of the Revenue concerning setting up a time where they, myself, the program developer and Linda Gray can get together and view the program and all of its capabilities. At this time I am waiting to hear from the program developer.*

Properly Secure Mail Payments: *Security of mail payments has been addressed with my staff. Mailed items will be secured.*

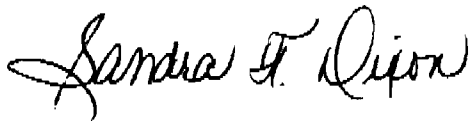
Properly Document/Secure Manual Receipts: *Pre-printed manual receipt books which do include the City of Waynesboro on them were purchased directly after last year audit. They are kept in a locked drawer. Each time a receipt is needed, the clerk goes to the drawer and writes up the receipt and returns the book back in the locked drawer. We will begin documentation of daily receipts used. Documentation of receipt numbers will be written on state payment sheets.*

Maintain Proper Accounting Records: This is a very weak area because of lack of training. Our office is in the process of completing the IRMS training program.

Perform Monthly Reconciliations: This, too, is a weak area due to lack of training. This is of high priority in our office and training will begin in the very near future.

I feel that training is needed in all aspects of reconciliations and maintaining proper records of all funds. In the following months, methods of training will be instilled in this office to insure proper management of state funds.

Sincerely,

A handwritten signature in cursive script that reads "Sandra F. Dixon".

Sandra F. Dixon, Treasurer
City of Waynesboro

