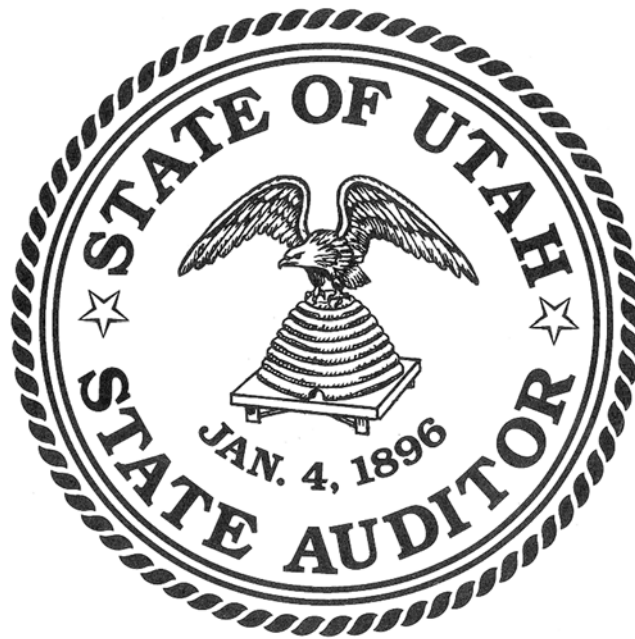


PLYMOUTH TOWN

Special Project Report
For the Period July 2015 through May 2017

Report No. PLYM-17-SP



OFFICE OF THE STATE AUDITOR

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PLYMOUTH TOWN
FOR THE PERIOD JULY 2015 THROUGH MAY 2017

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OFFICE OF THE
STATE AUDITOR

REPORT NO. PLYM-17-SP

April 17, 2018

Curtis Murray, Mayor
and
Plymouth Town Council
PO Box 130
Plymouth, Utah 84330

Dear Mayor Murray and Council Members:

We have performed the procedures described below to certain aspects of Plymouth Town's (Town) internal control and compliance for the period July 2015 through May 2017. We performed these procedures in response to Town officials contacting our office with concerns related to possible inadequate oversight of public funds. The purpose of these procedures is to assist the Town in evaluating its internal control and investigate the concerns.

1. We reviewed the cash receipting, cash disbursing, recording, and reconciling duties for adequacy of separation of duties for internal control purposes.
2. We reviewed the internal control over cash receipting procedures, including water and medical accounts receivable. We also performed various tests to ensure water and medical receipts were proper.
3. We tested a sample of cash disbursements for propriety, reasonableness, and compliance with certain internal and State purchasing policies.
4. We reviewed the Town's compliance with certain laws and requirements.
5. We performed other miscellaneous procedures, as considered necessary.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the Town's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the Town's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the Town during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please feel free to contact Leslie Larsen, Audit Supervisor, at 801-538-1348 or leslielarsen@utah.gov.

Office of the State Auditor

Office of the State Auditor

FINDINGS AND RECOMMENDATIONS

1. INTERNAL CONTROL WEAKNESSES

The term “internal controls” is used to describe the processes put in place by management or others, based on policies approved by the governing body, to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include separating certain responsibilities so that no one person has the ability to misappropriate public funds without detection. Ideally the responsibilities for authorization, custody of assets, record keeping, and reconciliation should be separated. In situations where it is impractical to separate duties, such as a small entity with limited staff, additional controls should be implemented. In this case, adequate compensating controls could include independent reviews or reconciliations.

Officials of Plymouth Town (Town) contacted us with concerns related to possible inadequate oversight of public funds. In an effort to strengthen their internal controls, the Town implemented many improvements even before we began our evaluation. However, our evaluation of the Town’s internal controls noted the following weaknesses which still exist at the Town:

- a. The Treasurer opens the mail and collects water payments from the Town’s dropbox with no other person present. Performing these activities unaccompanied increases the risk that money could be misappropriated without detection. This risk is compounded because the Treasurer also performs most other financial duties. The Town should require the opening of all mail receipts and collection and opening of dropbox receipts to be performed in the presence of two individuals. All cash and checks received should be entered into a log which should be signed or initialed by the two individuals opening the receipts and independently reconciled to the Town’s daily reports.
- b. Per Town practice, adjustments to accounts receivable are to be presented to the Mayor and a Councilmember for review and approval prior to entry in the accounting system; however, there is a risk that an improper adjustment could be entered in the system without their approval. As such, the Mayor and Councilmember should also review all accounts receivable adjustments after they have been entered in the accounting system. They should especially watch for unusual or frequent accounts receivable adjustments as these can be potential fraud indicators.
- c. An independent review of the Town’s credit card transactions is not performed. The Town does not use their credit card often; however, credit cards are considered high risk for misuse. As such, the credit card activity, including detailed/itemized receipts, should be reviewed by someone independent (not the cardholder) to ensure all purchases are reasonable and proper.
- d. The Town lacks adequate internal controls to ensure the proper use of fuel cards. When an employee purchases gasoline for a Town vehicle using a fuel card, the fuel type, number of gallons purchased, and odometer reading—as entered by the employee—are recorded and used to calculate each vehicle’s MPG (fuel economy), which also appears on the statement. Because gas cards are unique to each vehicle, a dramatic change in the

MPG for a particular vehicle can indicate inappropriate or wasteful use of that gas card. However, the Town is not currently having someone without access to the fuel cards perform a review of the fuel card statements to look for these changes.

Also problematic is that some employees enter incorrect odometer readings at the time of fuel purchase. In addition, the vehicle fuel cards, rather than separate fuel cards not associated with a vehicle, are used to fill 5-gallon containers kept on-site to fuel small equipment. Both these practices prevent accurate fuel economy calculations and, thus, the possibility of a sufficient detailed review of fuel card statements. These practices occur because the Town does not have policies requiring employees to enter accurate odometer readings and use separate fuel cards to fill 5-gallon fuel containers.

Recommendations:

We recommend that the Town:

- a. Open all mail receipts and collect and open dropbox receipts in the presence of two individuals, enter all cash and checks received in a log signed by both individuals, and independently reconcile the log to the Town's daily reports.**
- b. Implement a monthly review by the Mayor and Councilmember of accounts receivable adjustments after they have been entered in the accounting system.**
- c. Perform an independent detailed review of credit card activity, including detailed/itemized receipts to ensure the proper use of the card.**
- d. Perform an independent review of gas card statements and establish policies requiring employees to enter accurate odometer readings when purchasing fuel and to use a separate fuel card to fill the Town's 5-gallon containers in order to prevent incorrect fuel economy calculations.**

2. LACK OF WRITTEN FISCAL POLICIES AND PROCEDURES

The Town does not have written fiscal policies and procedures. As a result, various accounting procedures may not be handled properly or consistently by Town employees. The Town should have written policies and procedures related but not limited to: purchasing and procurement; cash receipting, accounts receivable, and cash disbursement; fixed assets; budgeting; credit card use; travel and meal per diem; safeguarding of cash, etc. It should be noted that, according to Utah Code 63G-6a-103(49), a municipality is subject to the Utah Procurement Code unless the municipality adopts its own procurement code by ordinance. On March 29, 2018, the Town discovered procurement code it had established by ordinance on April 16, 2014; however, this procurement code had not been followed because Town personnel did not know it existed. Written fiscal policies and procedures are necessary to ensure accounting issues are handled properly and consistently.

Recommendation:

We recommend that the Town develop and implement written fiscal policies and procedures, as approved by the governing body.

3. DISBURSEMENT PROBLEMS

We reviewed all Town disbursements for the period July 2015 through May 2017. We selected 73 expenditure transactions which appeared to be higher risk (based on payee, amount, etc.) for further review. For these 73 transactions, we noted the following problems:

- a. Three transactions were identified as inappropriate expenditures after discussion with the Mayor and other Town employees. These include two purchases of Utah Jazz tickets totaling \$684 and a meal purchase of \$47.51. The Utah Jazz tickets were given to certain Town personnel as an annual bonus, which may have resulted in tax consequences. All three purchases were debit card transactions. These inappropriate expenditures occurred because the Town lacked adequate policies and procedures regarding appropriate employee compensation (i.e. bonuses) and appropriate oversight of debit card transactions. The Town should establish written purchasing and procurement policies, as recommended in Finding No. 2, and perform a subsequent independent review of debit card transactions.
- b. Eleven transactions totaling \$14,183 did not have sufficient documentation, such as a receipt or invoice, establishing the amount, date, place, and essential character of the expenditure. Three of the eleven transactions were for meal purchases. A meal purchase should record the number of people served as well as who was served and the business purpose of the meal. Inadequate supporting documentation makes a proper review of expenditures impossible, causing the Town to be at greater risk of waste or abuse of public funds.
- c. For six expenditure transactions totaling \$5,077, the checks were improperly signed. The Town has a practice of requiring two signatures on each check and ensuring that the payee does not sign his/her own check. However, two of the checks had only one signature, and the payee provided one of the signatures on the other four checks. Single signature checks or checks signed by the payee are at greater risk for fraud, waste, and abuse. The Town should establish and enforce a written policy regarding the signing of checks.

Recommendation:

We recommend that the Town:

- a. **Establish written purchasing and procurement policies and procedures, as recommended in Finding No. 2, and perform a subsequent independent review of debit card transactions. In addition, the Town should investigate and resolve any tax consequences resulting from the awarding of annual bonuses.**

- b. **Ensure all disbursements are supported by adequate supporting documentation, such as receipts, invoices, etc. Meal purchases should have sufficient documentation, including the amount, date, place, name and number of people served, as well as the business purpose of the meal.**
- c. **Establish and enforce a written policy which requires all checks to be appropriately signed by two check signers and prohibits payees from signing their own check.**

4. ISSUES RELATED TO FIRE DEPARTMENT'S VENDING MACHINE OWNERSHIP

The Fire Department owns a soda machine that is placed outside Town Hall for public access. The soda machine is used as a fundraiser for the Fire Department. We noted the following issues related to the use of the soda machine as a fundraiser which, if not corrected, could result in the misuse of funds or inventory:

- a. The proceeds from the soda machine are periodically placed in the Fire Department's petty cash fund, and the expenditure of these funds is not subject to oversight or approval. Any revenues to the Town, regardless of the source, are considered public funds and, as such, should have proper oversight by the Town Council, including budgetary oversight and expenditure approval. The Town should ensure that funds received from soda machine sales are deposited in the Town's bank account and used in accordance with written policies and procedures.
- b. The Fire Department's petty cash fund is not used for any purpose other than to periodically hold proceeds from the soda machine. Because the soda machine proceeds should be deposited in the Town's bank account (as stated above), there is no useful purpose for the petty cash fund; as such, the Town should eliminate the Fire Department's petty cash fund.
- c. There are no controls or procedures in place to ensure the soda machine proceeds are properly accounted for and properly deposited. The Town should require that two employees be present for removal and counting of cash from the soda machine to minimize the risk of misappropriation. As noted above, the funds should also be deposited in the Town's bank account.
- d. There are no controls or procedures in place over the purchase and storage of soda machine inventory to ensure it is placed in the machine for sale purposes only. The inventory should be properly purchased, stored, and safeguarded to ensure it is not used for personal consumption.
- e. The key to the soda machine is accessible by all Town employees/volunteers. Only those employees tasked with maintaining the machine and collecting the proceeds should have access to the key.

Recommendation:

We recommend that the Town:

- a. **Ensure all revenues from the soda machine are properly deposited in the Town's bank account with budgetary and expenditure oversight by the Town Council.**
- b. **Eliminate the Fire Department's petty cash fund.**
- c. **Implement controls over the removal of cash from the soda machine, such as requiring two employees to remove and count the cash together, to ensure all proceeds are properly deposited in the Town's bank account.**
- d. **Implement controls over the purchase and storage of soda machine inventory to ensure it is properly placed in the machine for sale purposes only.**
- e. **Restrict access to the soda machine key to only necessary employees.**

5. WEAKNESSES RELATED TO ARRANGEMENTS FOR MEDICAL BILLINGS AND COLLECTIONS

We noted the following weaknesses related to the Town's payment for medical billings and collections related to the Town's ambulance service:

- a. The Town did not pursue a bid prior to entering into agreements to perform these billing and collection services. This occurred because the Town was unaware of written procurement policies and procedures (as noted in Finding No. 2) and was unaware that these services should be put out to bid. As a result, the Town overpaid the previous two collectors for the billing and collection services. Although the Town recently contracted with a collection agency at a percentage of net receipts that is within the national average, it did not do so through a bid process. We understand that the Town selected its current collector based on a mutual aid agreement with a neighboring city; however, this agreement should not preclude adherence to procurement requirements. When the current contract expires, the Town should issue an invitation to bid to ensure they are able to obtain the most advantageous contract terms.
- b. Between 2010 through 2017, the Town did not issue a Form 1099 – required by the IRS for tax purposes – to the former treasurer for performing medical billing and collection services as an independent contractor. This error was likely caused by Town personnel's lack of understanding of tax requirements. The Town should seek training and advice from qualified tax professionals to ensure they are in compliance with all IRS regulations and requirements.

Recommendation:

We recommend the Town:

- a. **Implement a purchasing and procurement policy and put out an invitation for bid when the current contract expires to ensure they are able to obtain the most advantageous contract terms.**
- b. **Issue IRS Form 1099s when required and seek training and advice from qualified tax professionals to ensure compliance with all IRS regulations and requirements.**

6. **FAILURE TO POST REQUIRED PUBLIC NOTICES TO THE UTAH PUBLIC NOTICE WEBSITE**

The Town has not posted public notices, agendas, or minutes of public meetings to the Utah Public Notice Website (Website) as required by Utah Code 52-4. The Website is administered by the State Division of Archives and Records Service, and its purpose is to bring greater accessibility to public notice information and increased participation by the public. Town personnel were not trained on Website requirements and were unaware that this requirement is applicable to the Town.

Recommendation:

We recommend that the Town post all required notices and information on the Utah Public Notice Website. We also recommend that Town personnel contact the State Division of Archives and Records Service to obtain training and tools for those tasked with posting public notices to the Website.