



STATE OF WYOMING

DEPARTMENT OF AUDIT

PUBLIC FUNDS DIVISION

(307) 777-7798 Fax (307) 777-5341
Email: probinson@wyaudit.state.wy.us

Dave Freudenthal
Governor

Michael Geesey
Director

Pamela Robinson
Administrator

June 25, 2010

Mayor Don Larson
Town of Kirby
114 North Bryan
Kirby, WY 82430

We are issuing this audit report pursuant to the requirements of Wyoming Statutes 9-1-507. This statute authorizes the Department of Audit to audit towns. The town submits census reports providing financial information to the Department of Audit each fiscal year in accordance with Wyoming Statute 9-1-507 (a) (vii).

Objective. The objective of our audit was to determine the Town of Kirby was in compliance with Wyoming State Statutes, and verify the accuracy of the census report.

Scope and Methodology. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit was from July 1, 2008 to June 30, 2009 including the census report for the most recent completed fiscal year. We interviewed the mayor Don Larson, clerk/treasurer Brenda Filler, and council member Christine O'Brien from the Town of Kirby. The following list of tests was performed during the performance of the audit.

- Comparison of the census report revenues to distributions reported by the State of Wyoming and County Treasurer
- Traced selected other revenues reported in the census report from receipting to deposit in the bank
- Traced selected expenditures reported in the census report to supporting documentation and approval by the town council
- Performed bank reconciliation and verification
- Reviewed utilities for accuracy in billing and collecting and are self supporting
- Reviewed the internal controls and computer controls

Based on the procedures identified above, 9 violations of the Constitution, State Statutes, or Federal Regulations and other deficiencies were identified, resulting in 10 findings. These violations and additional findings are presented in the accompanying summary of findings and recommendations.

This report is intended solely for the use of the specified users listed below; however, this report is a matter of public record and its distribution is not limited.

Public Funds

Public Funds

cc: Governor's Planning Office
County Clerk

FINDINGS AND RECOMMENDATIONS

The following details the written findings and recommendations identified during the audit.

Finding 1. The Town of Kirby does not have adequate internal controls:

"You are responsible for the design and implementation of programs and controls to prevent and detect fraud."

"Management is responsible for establishing and maintaining internal control and for compliance with laws, regulations, contracts, and agreements."

These directives were given in a previous Agreed Upon Procedures review done by the CPA firm Stine, Heiser, Buss & Associates in 2006. However, upon completion of our audit it was found that many of the same findings below held true and were not corrected following the review. This shows as a continuous disregard for improvement on deficiencies.

The following are areas identified as "Needs Improvement":

- Town does not have any system or active procedures for the detection/prevention of fraudulent activity;
- There is not adequate separation of duties in the town office;
- There is no official disaster recovery plan in place for the Town of Kirby;
- There is no desk manual for the clerk/treasurer's duties;
- Town computer password is not being changed, nor is the screen saver password feature being used;
- Town of Kirby does keep a current listing of fixed assets, however it is currently outdated;
- There is no formal policy on the proper /authorized use of town credit cards;
- There is no review process for data entries into town's computer system;
- The town does not post salaries of employees on an annual basis required by W.S. 15-1-110(b)(ii);
- The council has little involvement or knowledge of the town's accounting and procedures, voucher/expense requirements or fixed asset inventory;
- There is currently no succession policy for when current town clerk is absent or leaves.

Recommendation:

- Adequate internal controls need to be developed and observed to help provide an effective and efficient operation of the town government. The Town of Kirby should review the findings listed above and develop an action plan to address/enforce them;
- Computer passwords need to be unique and periodically changed. Back-ups for the computer should be kept off site as well as on site. The data entry into the town's computer system should be reviewed/checked as a quality control, as well as accounting entries used for the monthly reconciliations;
- The mayor and council need to be active in the town operations and provide the oversight needed to accomplish a satisfactory level of internal controls and separation of duties. A good segregation of duties tries to separate certain accounting functions. Ideally, the individual who receives cash should be different from the person who makes the deposit, and would be different from the person that opens and reconciles the bank statements. The Town of Kirby may want to consider having another employee or elected official to make the deposits, and the town council will want to examine and observe a monthly reconciliation to the bank statement;

- Make sure to create a written document that describes the daily activities and duties of the clerk/treasurer, in case of succession and in case of days of absence. This will ensure daily function of the town is not interrupted or stalled;
- The town should update the current fixed asset listing and make sure to keep current with town changes;
- The town should make sure to post all salaries for employees yearly as required by statute;
- The council should update and/or create a new policy for usage of the town credit cards, to ensure that all officials and employees understand the policy;

Finding 2. APPARENT VIOLATION OF LAW. W.S. 15-1-110 (a) states, in part, "The governing body of any city or town shall designate a legal newspaper and publish once therein the minutes of all regular and special meetings of the governing body and the titles of all ordinances passed. If a newspaper is not published in the city or town the proceedings or ordinances shall be posted for at least ten (10) days in the city or town clerk's office and in such other places as the governing body determines...."

The Town of Kirby does not designate an official newspaper. In lieu of this, the town also does not post the required information as discussed in the statute requirement.

Recommendation: The town council should post all required information about special meetings, ordinances passed, bill amounts and purpose, and claimant information in at least three accessible locations to the public for review.

Finding 3. APPARENT VIOLATION OF LAW. W.S. 16-2-102 states, in part, "After filing with the secretary of state his manual signature certified by him under oath, any authorized officer may execute or cause to be executed with a facsimile signature in lieu of his manual signature...."

The Town of Kirby had conflicting answers of whether or not there was a facsimile stamp of the mayor's signature kept.

Recommendation: If the town uses a facsimile stamp, need to make sure it is registered with the secretary of state's office and that the mayor is the only individual with access to it.

Finding 4. APPARENT VIOLATION OF LAW. W.S. 15-2-204 states, in part, "Immediately after the end of the fiscal year, the governing body shall publish in a newspaper, if one is published in the town, or if there is none then by posting in three (3) or more public places, an exhibit of the receipts and expenditures specifying....."

Town does not post receipts and expenditures at the end of the year.

Recommendation: Kirby should post publically a listing of all of its receipts and expenditures as required by statute.

Finding 5. APPARENT VIOLATION OF LAW. W.S. 9-4-817(b)(ii) states, in part, "In depositing the monies in the financial institutions, the treasurer shall select the institution designated as a depository by the proper governing board...."

The Town of Kirby has not officially designated a depository and voted to use it during the audit period.

Recommendation: The town must officially declare the depositories authorized for use by the town and vote on through council.

Finding 6. Controls and processes with regards to the town's banking records and security of town funds need improvement.

- Checks for utility payments and money received from the County Treasurer are not receipted;
- There was one instance where the deposit slip did not match what was put into the enterprise fund; the deposit slip matched the statement, but didn't match the ledger;
- Deposit entry shown as blank and the town clerk could not explain as to why this happened;
- Slight differences between the bank statements and the town QuickBook records, having already accounted for outstanding checks;
- No reconciliations were done for the entire audit period, which are used to check accuracy of the town books against the bank accounts;
- No town council monthly reports were found for entire audit period;
- Voided checks were not able to be verified;
- Town clerk is bonded in the amount of \$10,000. This covers cash and investments of \$22,000 and approximately \$400,000, respectively;
- Utility payments/deposits according to dates were unable to be pulled by town clerk, and could not be verified;
- Bills for utilities that were overdue weren't being disconnected. Neither original ordinance 37-1999, nor its amendment 62-2008 show a time frame for utility disconnect;
- Some statements for deposits could not be found or there were more statements than what were needed for the deposit;
- Raw water testing showed 6 deposits not verified and 8 deposits verified, domestic water testing showed 14 deposits not verified and 2 deposits verified, and garbage testing showed 10 deposits not verified and 4 deposits verified.

Recommendation: The governing body must be aware of and have active controls in the security and safeguarding of town funds. The above items should be reviewed and corrective action taken to address and monitor the safeguarding of town funds.

- All money received, whether cash, checks or electronic funds should have a receipt written for it;
- Make sure all deposit slips match what is entered into the accounting ledger so that they can be traced back to what account they were put in and the date they were deposited;
- Make sure to verify each account monthly and perform a monthly reconciliation, so an accurate representation of each bank account is present. The town clerk is currently providing the council a monthly report that shows bank account information, bills to approve, and money taken in by the town; recommendation to continue this practice;

- Voided checks should be kept and filed for verification purposes;
- When only considering the cash available in the bank account, the current surety bond amount of \$10,000 is more than adequate for coverage. However, when considering the amount in the WYOSTAR accounts, there doesn't seem to be adequate coverage. We recommend either increasing the amount of bond coverage, or limit the access to the WYOSTAR accounts to require board approval for all transaction withdrawals;
- The town should sum payments received and entered into the accounting system to what was deposited and the date deposited so that payments can be traced to deposits with more ease;
- The town should be sure their current ordinance for utilities shows a timeframe for disconnect when payment hasn't been received;
- The town should make sure the accounting records match the backup documentation for each utility payment/deposit.

Finding 7. APPARENT VIOLATION OF LAW. W.S. 15-1-125 (a) states, in part, "All claims and demands against any city or town shall be presented to the governing body by itemized invoice or other document from the vendor with a full account of the quantity and total cost for each item or for the services rendered. No payment shall be approved by the governing body unless the claim is certified under penalty of perjury by the vendor or by an authorized person employed by the city or town receiving the items or for whom the services were rendered..."

There is inadequate supporting documentation in part for the town bank accounts. Forty percent of items (29 of 73) did not contain a signed perjury statement and 65% of items (47 of 73) did not have a properly signed perjury statement.

Recommendation: Adequate detail and purpose must be included for all expenditures and town accounts. All expenses must be itemized and be business related. All claims made against the Town of Kirby must be properly certified under penalty of perjury before payment is authorized.

Finding 8. The Department of Audit (DOA) has authority to promulgate rules and regulations to carry out the provisions of the audit procedures as per W.S. 9-1-507. Public Funds Rule Chapter 3 Section 3 (c) requires 'Level A' entities to submit a self-audit and assessment of internal controls in addition to the annual F-66 (WY-2) Census Report.

For fiscal year (FY) 2009, the reports to the U.S. Census Bureau and the State of Wyoming Department of Audit could not be verified as accurate:

- Expenditures reported on the Census Report could not be verified to the General Ledger.
- Line item expenditures could not be verified to General Ledger. The expenditures audited in total were under reported by approximately \$16,345.
- The 2009 Census Report does not reconcile.
- *Internal Control evaluation worksheet* reports states that the town pays claims only after properly certified under penalty of perjury and that someone other than the bookkeeper reviews, authorizes, and approves journal entries, both of which were found to be incorrect statements concerning controls over compliance and cash & investments of the town.

Recommendation: The Town of Kirby must provide accurate and reliable information in its reporting. This information becomes a vital part of the decision making processes used by the Department of Audit, Governor, State Legislature, and the U.S Census Bureau.

Finding 9. APPARENT VIOLATION OF LAW. Payroll forms are not kept current as required by U.S. Department of Justice and the Internal Revenue Service (IRS).

Not all council members had an I-9 or W-4 on file. Also, payroll taxes are not being properly calculated. Employee bonus checks did not have appropriate amounts withheld.

Recommendation: Payroll files should be updated/kept current as required by federal guidelines. All employees, mayor, and council members should supply an I-9 (with documentation) and a W-4. Use the payroll reports on QuickBooks instead of manually adding up checks. Make sure that the information on the 941 adds up and ties to QuickBooks, and to the W-2s and W-3s at the end of the year. Make sure that QuickBooks ties to the wages used in the state report. Properly authorized bonuses are still classified as wages by the IRS. Make sure that appropriate taxes are withheld.

Finding 10. APPARENT VIOLATION OF LAW. W.S. 15-2-201 (a) states in part “The fiscal year of each town begins July 1 in each year. Except as provided in W.S. 16-4-104(h), the governing body, within the last quarter of each fiscal year, shall pass an annual appropriation ordinance for the next fiscal year in which it may appropriate an amount of money necessary to defray all expenses and liabilities of the town. The ordinance shall specify....”

The council did not pass and approve budget for this fiscal year.

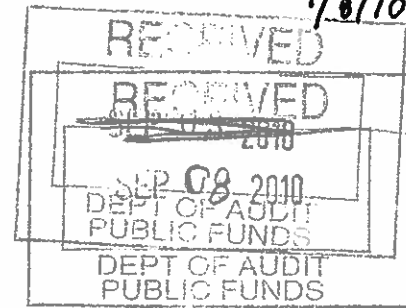
Recommendation: In order to follow Wyoming statute, the town should pass and approve a budget each year.

Town of Kirby
Audit Response
June 30, 2009

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Stephen Nelson

Auditor, State of Wyoming

August 17, 2010

Dear Sir:

Finding # 1

Due to the size of the Town of Kirby, there are not enough people or income to employ two people for the office for separation of duties, as I am sure you are aware of in small towns. There is a copy of the list of duties for the clerk/treasurer in the office.

Finding #2

The Town does post minutes and ordinances in two places for public view on the bulletin outside the town building and outside the town office. Due to our size we cannot afford to designate an official newspaper.

Finding #3

There was confusion as to what you were asking the mayor thought you were asking about a town seal. The town does not have a facsimile stamp of the mayor's signature.

Finding #4

This is being corrected. As per our discussion the budget results are posted with all income received and all expenses incurred.

Finding #5

This matter will be taken care of will designate official depository annually.

Finding #6

All income is now being receipted; reconciliations are now being done and printed for council inspection. Council receives monthly listing of bills to be paid and has.

Will work on ordinance for overbills disconnection will be drafted.

Finding #7

As per your recommendation this will be corrected, due to where bills came from invoice could not be obtained, Will have council member verify and sign perjury statements on those invoices from now on.

Finding #8

Town of Kirby
Auditor Response
June 30, 2009

PBA

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Due to size of town there is not enough staff and volunteers to approve journal entries.

Will work close with your office to make sure all entries on the Census report are reported and accounted for.

Finding #9

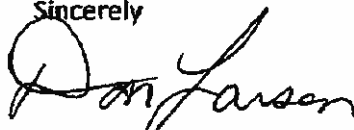
Did not know all council members needed these since we do not classify them as employees , we do not take taxes out of their checks and give them a 1099 at the end of the year.

Will have all council and staff file W4's and 1099's from now on.

Finding # 10

A budget is passed and approved by the Town council every year and reported in the minutes of the last meeting before the next fiscal year.

Sincerely



Don Larson

Mayor Town of Kirby