# CITY OF BELLINGHAM
## Whatcom County, Washington
## Special Audit
## January 1, 1992 Through December 31, 1994

## Schedule Of Findings

1. Bayview Cemetery Accounting Procedures Should Be Improved

Cemetery transactions were not properly monitored and controlled by city officials. In addition, claims for services rendered by the cemetery manager were either not accurate or not adequately supported.

The City of Bellingham contracted for the management of Bayview Cemetery. The cemetery manager is responsible for the daily operations of the cemetery, including burials, irrigation, and sales of grave plots, liners, memorials, and related services on both a pre-need and at-need basis. The contract provides that the cemetery manager shall earn a commission on pre-need sales only, with the exception of memorials which can be claimed for commission for at-need sales.

An independent auditor performed a review of the contract sales from January 1, 1989, through June 30, 1994. This review concentrated on allowable commissions earned by the cemetery manager compared to total commissions actually received and determined the cemetery manager had overbilled the city for $21,151.00 during this period. The cemetery manager has reimbursed the city for all but $82.88 of these unearned commissions. The city terminated the cemetery manager's contract on January 31, 1995. The city requested the State Auditor's Office perform an additional audit of the cemetery's records. Our audit revealed the following irregularities:

a. Commissions: The cemetery manager overcharged the city for commissions due from services rendered under the provisions of the contract.

The cemetery manager stated the overbillings described above resulted from a computer software problem dealing with the calculation of the commission amounts due on the various types of cemetery transactions. While the city provided a computer and a special cemetery software package to assist in the operations of the cemetery, our review determined the commission report the cemetery manager sent to the city for payment was not a report included with the software package. The commission report was created (i.e., programmed) by the cemetery manager or by someone else under his direction using the report generator. The computer program used to prepare this report included a commission percentage for the cemetery manager which was not authorized by the contract. This unauthorized percentage commission varied depending upon the type of transaction involved.

In June 1993, we brought the above noted errors in the cemetery commission reports to the attention of the cemetery manager and other city officials. In August 1993, the cemetery manager began reporting commissions from a simple

computer generated spreadsheet. However, the cemetery manager's spreadsheet files were incomplete because not all of the reports were retained for our review either on computer disk or on the hard drive of the computer.

We noted the following irregularities from the information that was recorded on the computer spreadsheets which were available for our review.

(1) The formula which was entered by the cemetery manager to calculate commissions remaining did not take into consideration any payments received prior to August 1993. By not taking these prior payments into consideration, the balance of commission due to the cemetery manager was inflated.

(2) We noted instances where the amount entered as payment from the customer exceeded the amount actually received by the cemetery manager. This inaccurate information increases the commission amounts due to the cemetery manager.

(3) A formula was not used for the commission balance due amount. The cemetery manager inserted an amount which did not relate to the prior or subsequent commission amount due to the cemetery manager.

(4) Payment amount erroneously inserted for balance and vice versa. This inaccurate information resulted in errors in the amount of commissions due to the cemetery manager.

(5) Eleven of the accounts on the June 1993 commission report were entered exactly as they appeared on the May 1993 commission report (i.e., current payment, remaining amount to be paid on commission due now) without consideration given to the payments which had been received in June 1993. This inaccurate information inflated the balance of commissions due to the cemetery manager.

b. Monuments: The cemetery manager overcharged the city for commissions due from services rendered under the provisions of the contract.

When monument stones were sold, the cemetery manager inscribed them and billed the city for the cost of the stone plus the inscription fee. Our comparison of the cemetery manager's invoices to the city with the corresponding customer sales contracts on file in the cemetery's records revealed the following irregularities:

(1) Some invoices did not list a contract number for the transaction. Other invoices listed incorrect contract numbers.

(2) In some instances, the name on the invoice was different than the name on the referenced contract, or a different spelling of the name involved.

(3) The contract number and name was not indicated on three invoices totaling $400.00. In these instances, only a description of the product and the price were shown on the invoice. These invoices could not be traced to any name or contract maintained in the cemetery records.

(4) The cemetery manager invoiced the city for the retail price of three

monument stones rather than the wholesale price as agreed upon. As a result the city paid $524.50 more than required because these variances were not detected at the time the invoices were processed.

(5) In three instances, the cemetery manager either did not bill the customers for the cost of monument stone inscriptions, or told the customers there was no charge for this service. The cemetery manager did, however, invoice the city $115.00 in inscriptions fees for the cost of these services. This action represented a gift of public funds, which is prohibited by the *Constitution of the State of Washington*.

(6) The cemetery manager double billed the city for services rendered by submitting 23 invoices twice. As a result, the city paid $3,753.23 more than required because these irregularities were not detected at the time the invoices were processed for payment.

(7) The cemetery manager's records indicated there were 17 transactions related to monument stones sales and inscriptions which had not yet been billed to the city. However, our audit disclosed that four of these transactions had already been invoiced and paid by the city.

c. Memorial: The cemetery manager overcharged the city for services rendered on a memorial for a civil war hero which was erected with funds donated by private citizens. Our audit revealed the following irregularities:

(1) The cemetery manager invoiced the city twice for the cost of the headstone for the wife of the civil war hero. One of these invoices was for $150.00, while the other for $100.00.

(2) While the total amount of donated funds received for this memorial was $1,726.00, the city actually paid $1,844.06 to the cemetery manager on three invoices associated with the project. Since the city spent $118.06 more than it received in donations for the monument, this action represents a gift of public funds which is prohibited by the *Constitution of the State of Washington*.

Regarding the system of accounting, RCW 43.09.200 states in part:

> . . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source, all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction: all statements and reports made or required to be made, of the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. (Emphasis ours.)

RCW 42.24.080 states in part:

> All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor or for any other contractual purpose, shall be audited, before payment . . . The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision; and no claim shall be paid without such authentication and certification . . . .

RCW 42.24.100 states:

> The certificates required by RCW 42.24.080 through 42.24.110 need not be sworn, but any person certifying a claim or making a claim knowing the same to be false or untrue shall be guilty of perjury in the second degree.

RCW 9A.72.030 states:

> (1) A person is guilty of perjury in the second degree if, with intent to mislead a public servant in the performance of his duty, he makes a materially false statement, which he knows to be false under an oath required or authorized by law.
>
> (2) Perjury in the second degree is a class C felony.

RCW 9A.20.021 states in part:

> (1) Felony. No person convicted of a classified felony shall be punished by confinement or fine exceeding the following . . .
>
> > (c) For a class C felony, by confinement in a state correctional institution for five years, or by a fine in an amount fixed by the court of ten thousand dollars, or by both such confinement and fine . . . .

RCW 68.52.060 states in part:

> It shall be the duty of the cemetery board and other body or commission having in charge the care and operation of cemeteries to invest all sums set aside from the sale of lots, and all sums of money received, and to care for the income of all money and property held in trust for the purpose designated herein . . . .

RCW 68.52.070 states:

> Accurate books of account shall be kept of all transactions pertaining to said fund, which books shall be open to the public for inspection and shall be audited by the auditing committee of said city.

Article VIII, Section 7, of the *Constitution of the State of Washington* states in part:

> No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money or credit to or in aid of any individual, association, company, or corporation . . . .

The contract between the cemetery manager and the City of Bellingham states in part:

> The manager shall be additionally compensated for all pre-need sales after such time as a minimum of 150 pre-need graves are sold, as follows:

| Percent of Sales Price | Type of Sale |
|---|---|
| 46% | Pre-need Grave Sales |
| 25% | Pre-need Liner and Vault Sales |
| 15% | Pre-need Interment Charges |
| 30% | Pre-need Monuments or Memorials |

The following internal control weakness allowed these irregularities to occur and not be detected by city managers in a timely manner:

> The city did not adequately monitor the cemetery manager's claims for the reimbursement under this contract to ensure that all payments were accurate and properly supported by appropriate documentation.

We recommend the city seek restitution from the former cemetery manager for $4,993.67 in overpayments on the contract and all audit/investigation costs associated with this audit. We also recommend the city review overall accounting controls for monitoring the cemetery contract, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of city assets.

We refer this matter to the Washington State Office of the Attorney General and the Whatcom County Prosecuting Attorney for review and any further action deemed appropriate under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor, as directed by RCW 43.09.260.