

Revenue Monitoring and Auditing – It Really Does Matter!

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“Vision without action is merely a dream.
Action without vision just passes the time.
Vision with action can change the world.”

- Joel A. Barker

Biography

- City Auditor, City of Kent (since September 2002)
- Washington State Auditor's Office (August 1987 – August 2002)
- President, Pacific Northwest Chapter/ Association of Certified Fraud Examiners

Disclaimer

The views and opinions expressed do not necessarily reflect the views and opinions of the City of Kent, or City elected officials, management or staff

About The City of Kent

- Mayor/City Council Form of Government
- Population of 121,400 (6th Largest)
- \$180.1 million annual budget, including \$81.0 million for the General Fund (2015)

About The City of Kent – Continued

- 660 FTEs (2014)
- Water, Sewer and Drainage Utilities, Police, Municipal Golf Course and Municipal Court
- Kent Fire Department Regional Fire Authority

Objectives

- Understanding the importance of identifying and managing risks associated with major revenue streams and the role of effective monitoring and audit strategies
- Sharing some ideas for managing internal and external risks

Agenda

- Overview
- Objectives
- Internal and External Risks
- Identifying Risks
- Significant Revenue Streams
- Managing Risks

Overview

- Taxpayer equity and perception of detection are critical to compliance
- Revenues - two primary inherent risks:
 - ✓ Internal, i.e. misappropriation
 - ✓ External, i.e. incorrect or non-reporting/payment

Objectives

- Internal Risks:
 - ✓ Ensuring revenues are safeguarded from waste, theft and abuse
- External Risks:
 - ✓ Ensuring revenues due to the organization are complete and properly calculated, supported and remitted timely and intact

Internal Risks

Ensuring openness, transparency and accountability in financial operations through:

- Monitoring, i.e. comparing results to expectations.
- Providing for a proper segregation of duties between access to assets and control over the related financial records.

Internal Risks – Continued

- Establishment of a proper audit trail to ensure that the “financial story” is timely, complete, accurate and properly supported.
- Establishment of a proper transfer of accountability for assets assigned to a specific person at a specific point in time all of the time.

External Risks

Ensuring openness, transparency and accountability in taxpayer compliance:

- Monitoring, i.e. comparing results to expectations
- Taxpayer outreach and education
- Audit ranging from communication to examination of books and records

Identifying Risks

- Complexity of revenue, e.g. admissions tax v. B&O tax?
- How many taxpayers?
- Amounts owed calculated by local government or self-reported?

Identifying Risks - Continued

- How are moneys received?
 - ✓ Wire transfer
 - ✓ Cash/check
 - ✓ Credit cards
- Are moneys received at a centralized or decentralized location?

Significant Revenue Streams

Top Three Revenues (2013, unaudited):

- Counties (\$7.0 billion):
 - ✓ Taxes - \$2.9 billion (41%)
 - ✓ Charges for Goods & Services - \$1.9 billion (27%)
 - ✓ Intergovernmental - \$1.5 billion (21%)

Significant Revenue Streams - Continued

Top Three Revenues (2013, unaudited):

- Cities (\$10.5 billion):
 - ✓ Charges for Goods & Services - \$4.9 billion (47%)
 - ✓ Taxes - \$3.8 billion (36%)
 - ✓ Intergovernmental - \$.8 billion (8%)

Significant Revenue Streams - Continued

- General Property Taxes:
 - ✓ Risks primarily at County level
 - ✓ Primarily assessments, collections and adjustments
 - ✓ New construction
- Retail Sales/Use Taxes:
 - ✓ Local government portion properly remitted (partnership effort)

Significant Revenue Streams - Continued

- State-shared Revenues:
 - ✓ Examples include criminal justice taxes, liquor taxes/profits and fuel taxes
 - ✓ Primarily ensuring moneys used for allowable purposes

Significant Revenue Streams - Continued

- B&O, Utility and Gambling Taxes:
 - ✓ Private v. Interfund
 - ✓ Significantly more taxpayers and complexity for B&O taxes
 - ✓ Self-reported
 - ✓ Primarily completeness, collections and accuracy of reporting

Significant Revenue Streams - Continued

- Business Licenses and Building Permits:
 - ✓ Gateway to certain taxes and other revenues
 - ✓ Primarily completeness, collections and accuracy of reporting
 - ✓ Relationship of building permits to property taxes (new construction)

Significant Revenue Streams - Continued

- Municipal Utility Services:
 - ✓ Primarily water, sewer, storm drainage and garbage collection/ disposal services (electric and natural gas as well)
 - ✓ Primarily completeness, collections and adjustments

Managing Risks

- The “kiss of death” in any financial operation is not addressing the following:
 - ✓ What could go wrong?
 - ✓ What is the organization doing to address risk in a cost-effective manner?

Managing Risks

- Key considerations:
 - ✓ Trust is not an internal control
 - ✓ Internal controls are positional and situational, not personal
 - ✓ People (and organizations) respect what you inspect not what you expect (trust, but verify)

Managing Risks - Continued

- Develop partnerships including:
 - ✓ Chamber of Commerce
 - ✓ Department of Revenue (e.g. sales/use tax)
 - ✓ Other cities/counties
 - ✓ Various user groups, e.g. Tax Roundtable

Managing Risks - Continued

- Taxpayer education and outreach are key to compliance:
 - ✓ Taxpayer equity and minimizing the cost of compliance are key components
 - ✓ Tools include incorporating key information as part of business license process, e.g. sales/use tax location code

Managing Risks - Continued

- Identify significant revenues and high risk other revenues
- Develop financial expectations based on non-financial factors where possible
- Are controls in place designed to provide reasonable assurance management objectives are met?

Managing Risks - Continued

- Monitoring:
 - ✓ Include at the individual taxpayer level where appropriate, e.g. sales/use tax, utility taxes, etc.
 - ✓ Verify new businesses properly reporting for local government
 - ✓ Timely follow-up for unusual items

Managing Risks - Continued

- Taxpayer Audits:
 - ✓ Statutory authority considerations, e.g. sales/use tax audits
 - ✓ Cost-benefit considerations
 - ✓ In house v. contract
 - ✓ Range from simple inquiry to full audit of books and records

Concluding Thoughts

- It's not just about the money – taxpayer equity is very important
- The first step is always identifying your risks and developing an action plan
- Monitoring to expectations
- You are not alone – leverage resources

Questions?



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