

Board of Commissioners  
Racine Water & Wastewater Utilities

Response to 2009 Auditors management letter dated April 7, 2010

Preparation of Financial Statements

The Utility chooses to have the auditing firm assist in preparing the financial statements and required disclosures due to the frequent changes within the General Accepted Accounting Principals (GAAP). Auditing firm personnel are up-to-date on the requirements, and prepare these statements frequently. Utilities' management, as well as city finance personnel, review the financial statements, footnotes, and disclosures before they are issued. The Utility recommends the audited statements continue to be prepared by the auditing firm.

Segregation of Duties

The auditors expressed concern due to utility staff having computer access to multiple areas in performing accounting functions. The example provided was the A/R clerk who maintains customer accounts can also handle cash & check payments and issue credit memos. Our Utility cross-trains staff to ensure coverage when staff is out sick, on vacation, or at lunch. To maintain high customer service levels, staff must have access to multiple accounting features. To address the auditors' concern, utility management will review all customer adjustments, debit and credit memos, on a monthly basis to insure proper procedures are followed.

Cash Reconciliations

Utility staff has always been performing cash reconciliations every month. Our financial software is used to reconcile the bank accounts down to zero. However, there are minor adjustments and timing issues mainly due to NSF's (nonsufficient funds) and ACH (automated clearing house) returns that occur outside of the reconciling software program. The Utility, since January 2010, has added steps to address this issue and is now reconciling the General Ledger to the penny every month.

Other Matters – User Creation & Rights Assignment

The primary software used to maintain the utilities' financial information has its own authentication systems in which user creation and right assignment is handled by the administrative manager. The administrative manager is also the primary user of the system. The auditors state that it is essential that those that have authority to create users and rights, also not be users of the system. The Utility does not have a MIS department. As a compensating control, the chief of operations will be given instructions and access to view all users and levels of access in the utilities' financial software at any interval he believes is necessary. Due to the low turnover of staff, user creation is a rare event. This procedure should satisfy the auditors' concerns about user creation by an internal administrator of the system.

### Other Matters – Access to Multiple Functions

The auditors' concerns about access to multiple functions are similar to the segregation of duties listed above in that many users of the financial system are assigned to multiple user groups providing access to areas outside their normal work areas. Once again, while each staff does have primary areas they work in, they cover for others when needed. This includes the administrative and assistant administrative managers filling in when needed. We do not agree with the suggestion to remove processing activities from the administrative and assistant administrative managers. Transaction reviews, such as daily purchase orders, weekly check registers, and monthly journal entries have always been reviewed by the general manager.

### Other Matters – Unique Employee User Accounts

The auditors' concern is that the computer supervisor and the administrative manager share a network administration account. Also, a level of risk exists because the primary financial user is also a network administrator. Again, the Utility does not have a separate MIS department. The computer supervisor that was hired focuses on mainly SCADA and operational controls at both the Water & Wastewater plants. The Administrative Manager has always overseen the billing and financial software. Network administration, such as virus protection, email, and user accounts, has been shared by both the computer supervisor and administrative manager. This, again, provides some backup protection should one individual be unavailable.

### Other Matters – Use of Active Directory Policies

The auditors suggest better control over workstations such as screensaver timeouts, password expirations, control over Internet Explorer, and other items, could be made through Microsoft's Active Directory. The Utility does use Microsoft Active Directory for system wide user policies and is reviewing it's current setup. In many companies, the requirement to frequently change passwords forces employees to write them down on paper at their desks. This makes security even more vulnerable than simply keeping one password for a longer period of time in our opinion. Employees seldom leave their assigned desk and when they do, it is fairly obvious if someone else sits at their workstation.