



Washington State Auditor's Office

Troy Kelley

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Accountability Audit Report

Town of Springdale

Stevens County

For the period January 1, 2011 through December 31, 2013

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Washington State Auditor Troy Kelley

December 18, 2014

Mayor and Town Council
Town of Springdale
Springdale, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Town operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Town's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, Town operations complied with applicable requirements and provided adequate safeguarding of public resources. The Town also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Town could make improvements.

We recommended the Mayor and Town Council establish internal controls over all key financial operations and monitor to ensure they are followed. Specifically they should:

- Ensure they receive timely, accurate financial reports in order to monitor the Town's financial activities and position.
- Ensure employees prepare accurate accounting records; retain documents to support the validity of all transactions and file these records so they are retrievable.
- Ensure staff receives training on how to prepare accurate and reliable accounting records, financial statements and schedules.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Town of Springdale from January 1, 2011 through December 31, 2013.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Town's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance.

The following areas were examined during this audit period:

- Utility billings
- Cash receipting
- Safeguarding of small and attractive assets
- Payroll/personnel
- Payments/expenditures

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2013-001 The Town does not have internal controls over financial operations, placing public resources at risk of loss or misappropriation.

Description of Condition

The Town of Springdale spends approximately \$250,000 annually. Its primary sources of revenue are property taxes and water/sewer service billings.

Since 1999, we have reported that the Mayor, Town Council and management do not properly monitor the Town's financial operations. The current Clerk has been with the Town since 2001 and is responsible for all aspects of those financial operations. For fiscal years 2011 through 2013, we found the Town's internal controls continue to be inadequate to protect public resources, specifically:

General financial operations

- The Town does not maintain records. During our audit the Clerk was unable to find many of the documents we requested and we had to request copies from the bank, granting agency or contractor.

Utility billings

The Town does not have adequate oversight over utility billings, payments and delinquent accounts.

No one monitors the accuracy of the utility billing system's rate schedule.

- The Town does not have adequate controls to ensure utility payments received are safeguarded, deposited timely or entered accurately in to the utility billing system.
- The Town does not have a formal policy on delinquent accounts and service disconnections. It does not consistently apply decisions on account collections and disconnections to all customers.

Cash-receipting

The Town could not provide documentation to show how much it should have deposited.

- The Town has no written cash-receipting policies.

- It has no process to ensure all money collected is receipted and deposited.
- It does not record receipts in the accounting records in a timely manner, and does not reconcile what is collected to amounts deposited in the bank.

Payments

Oversight over vendor payments isn't adequate to ensure expenditures are legal, allowability or accurate.

- An elected official charged the Town's fuel card for personal use and the Town was unable to collect reimbursement.
- Employee mileage reimbursements weren't calculated properly and employees were over paid.

Payroll

The Town doesn't have adequate oversight over payroll to ensure timesheets are accurate, payroll transactions are calculated accurately or leave accruals are properly tracked.

- The Town had no payroll review process to ensure time worked was entered into its payroll system correctly and amounts paid were accurate.
- The Town does not adequately track leave accruals.

Cause of Condition

The Mayor and the Town Council have not placed a high priority on ensuring internal controls are in place to ensure accountability over public resources.

Effect of Condition

The lack of control and oversight of all aspects of the Town's finances increases the risk that misappropriation or misuse could occur and not be detected in a timely manner, if at all. It also places the Town at risk of not being able to meet its financial obligations.

Utility Billing

- We noted errors in the Council approved rates for late fees, the basic monthly rate for commercial water users, and the sewer reserve charge. This also results in inaccurate calculations of utility excise taxes.

- We validated one citizen's concern that his utility account had not been properly managed by the Town. The Clerk-Treasurer told the citizen a February 2014 payment had not been received. When the customer sent a replacement payment, both checks were deposited but only one was applied to his utility account balance. In March the Town processed a refund to the citizen for the duplicate payment. The same citizen received a bill in September 2014 for water usage of more than 62,000 gallons. The billing error was quickly resolved, but is another indication of the Town's weaknesses in utility billing and receipting controls.
- Sewer usage charges require a manual calculation. We noted errors in four of the five bills tested.
- The Town's informal policy is that any account over 90 days past due will be disconnected. We performed an analysis over all accounts for June 2013 and identified 14 accounts that were at least 90 days past due and were billed for usage indicating they had not been disconnected.
- We identified only one payment plan approved by the Utility Billing Committee for 2013 and noted the customer did not follow the agreed upon arrangement and services were not disconnected.

Cash Receipting

- The Town didn't reconcile recorded revenues to bank deposits for 2013.
- We identified receipts that were deposited in the bank but not recorded in the system and receipts that were recorded in the system more than once including a \$13,050 grant reimbursement.

Payments

- We identified \$50 in fuel charges for personal use that was not reimbursed by a former elected official.
- We identified errors in mileage reimbursements causing the Town to be overcharged by \$104.

Payroll

- When reviewing timesheets we noted several versions of employee timesheets.
- Most timesheets were missing employee and/or supervisor signatures.

- An employee had a leave buy out of \$657 and the 40 hours of vacation leave paid, was not properly deducted from the leave balance.
- Of the 11 payroll transactions reviewed we identified calculation errors in six resulting in overpayment of \$407 and underpayment of \$127.

Recommendation

In 2014, the Town is again receiving federal funds to upgrade its water systems which will require a federal single audit. Therefore, it is imperative the Town establish and follow internal controls and accounting procedures to demonstrate compliance with laws, regulations and grant requirements. Failure to do so could result in a loss of this funding.

We recommend the Mayor and Town Council:

- Develop a filing system so that financial records are retained and retrievable.
- Establish internal controls over all key financial operations and monitor to ensure they are followed.
- Ensure staff prepare and retain documents according to records retention schedules to support the validity of transactions.
- Ensure staff prepare accurate and reliable accounting records.
- Ensure it receives timely, accurate financial reports in order to monitor the Town's financial activities and position.
- Ensure staff receives training on how to prepare accurate and reliable accounting records, financial statements and schedules.

Town's Response

The Town maintains records and was unable to find bank statements for an account that was closed in 2013. These statements were not sent to the Town's PO box and instead were sent directly to the previous Mayor. Utility cash receipting is being used within the system with numbered receipts printed on each transaction. AN oversight on one billing receipt was taken care of right away and addressed with it happened. The Town has just replaced all water meters with the Town using the grant and loan funds. The Account in question did not receive a "commercial" meter and this was input as one causing the billing error. This issue was corrected within hours of the customer reporting the issue who then contacted the auditor's office as he felt this was not to his satisfaction.

The Clerk Treasurer in on a daily basis entering all receipts into the system when received and printing out documentation for all deposits. The Town was unaware of calculation problems in the payroll system and has requested IT assistance from the vendor however the employee will have to pay back any monies that were not correctly earned. The financial oversight committee was informed of the fuel charge which was then brought to the Mayor who is no longer in office. The Town took action to collect the money, but was not successful.

Auditor's Remarks

We thank the Town for its assistance during the audit and acknowledge its commitment to improving the conditions described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

RCW 35.27.220 – Town Clerk – Duties, states:

The town clerk shall be custodian of the seal of the town. The town clerk may appoint a deputy for whose acts he or she and his or her bondsperson shall be responsible. The town clerk and his or her deputy may administer oaths or affirmations and certify to them, and may take affidavits and depositions to be used in any court or proceeding in the states.

The town clerk shall make a quarterly statement in writing showing the receipts and expenditures of the town for the preceding quarter and the amount remaining in the treasury.

At the end of every fiscal year the town clerk shall make a full and detailed statement of receipts and expenditures of the preceding year and a full statement of the financial condition of the town which shall be published.

The town clerk shall perform such other services as may be required by statute or by ordinances of the town council.

The town clerk shall keep a full and true account of all the proceedings of the council.

RCW 35.33.141 – Report of expenditures and liabilities against budget appropriations, states:

At such intervals as may be required by city charter or city or town ordinance, however, being not less than quarterly, the clerk shall

submit to the city's or town's legislative body and chief administrative officer a report showing the expenditures and liabilities against each separate budget appropriation incurred during the preceding reporting period and like information for the whole of the current fiscal year to the first day of the current reporting period together with the unexpended balance of each appropriation. The report shall also show the receipts from all sources.

RCW 42.24.080 – Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification.

(1) 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, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered, the labor performed as described, or that any advance payment is due and payable pursuant to a contract or is available as an option for full or partial fulfillment of a contractual obligation, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision. No claim shall be paid without such authentication and certification.

(2) Certification as to claims of officers and employees of a county, city, district or other municipal corporation or political subdivision, for services rendered, shall be made by the person charged with preparing and submitting vouchers for payment of services. He or she shall certify that the claim is just, true and unpaid, and that certification shall be part of the voucher.

RCW 43.09.200 – Local government accounting – Uniform System of Accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

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, for 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.

Budget Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained and fairly disclosed in the financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 40.14.070 – Destruction, disposition, donation of local government records – Preservation for historical interest – Local records committee, duties – Records retention schedules – Sealed records, states in part,

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee. Official public records shall not be destroyed unless

STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of the Town of Springdale is provided below:

1. The Town does not have internal controls over financial operations, placing public resources at risk of loss or misappropriation.

Report No. 1005862, dated June 13, 2011

Background

Since 1999, we have reported that the Mayor, Town Council and management do not properly monitor the Town's financial operations. For the audit fiscal years 2007 to 2010, we found the town's internal controls continue to be inadequate to protect public resources in the areas of general financial operations, utility billing, cash receipting, vendor payments, and payroll.

Status

The Town has made some progress but has not resolved many of the noted concerns. The finding is repeated in this report.

RELATED REPORTS

Financial

Our opinion on the Town's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the Town's financial statements.

That report includes a finding for a significant deficiency in internal controls over financial statement report preparation and a finding related to declining financial condition.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Town's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report.

INFORMATION ABOUT THE TOWN

The Town of Springdale serves approximately 280 residents in Stevens County. The Town employs three people that provide services including water, sewer, police and general administrative services.

An elected, five-member Council and a separately elected Mayor govern the Town. For fiscal years 2011, 2012 and 2013, the Town operated on revenues of approximately \$800,000, \$435,000, and \$1.4 million, respectively

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Town of Springdale at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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