



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Accountability Audit Report**

# **City of Colfax**

**Whitman County**

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

**Published April 23, 2015**

**Report No. 1014065**





## Washington State Auditor Troy Kelley

April 23, 2015

Mayor and City Council  
City of Colfax  
Colfax, 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 City 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 City'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

## TABLE OF CONTENTS

Audit Summary .....	4
Schedule Of Audit Findings And Responses .....	5
Related Reports .....	11
Information About The City .....	12
About The State Auditor’s Office .....	13

## AUDIT SUMMARY

### Results in brief

In most areas we audited, City operations complied with applicable requirements and provided adequate safeguarding of public resources. The City 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 City could make improvements.

We recommend the City evaluate its policies and procedures over key financial operations to ensure that internal controls are adequately designed to safeguard public resources. Detailed recommendations are included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of the City of Colfax 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 City'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:

- Cash receipting
- Contracts/agreements
- Payroll/personnel
- Third party cash receipting
- Utilities billings
- Financial condition
- Credit cards and accounts

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

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

#### ***Description of Condition***

The City of Colfax spends approximately \$2.5 million annually and has 20 employees. Its primary sources of revenue are property taxes and utility service billings. The Mayor and City Council appointed the Treasurer to process and oversee daily accounting and financial operations. Our audit identified the following significant internal control deficiencies:

- The City lacks formal written policies to sufficiently address key financial operations, such as bank reconciliations; accounting record adjustments; payments to vendors; use of credit cards and charge accounts.
- The City lacks effective oversight to ensure payments to vendors and employees are valid, supported and timely.
- The City does not have adequate segregation of duties between customer billings, customer payments, and account adjustments. There is also a lack of formal policies and oversight related to fees for delinquent accounts.
- The City does not adequately monitor its interlocal agreement related to McDonald Park to ensure that costs are shared between parties as documented in the agreement or determined by the Steering Committee.
- The City does not have a process in place to ensure records are retained as required by records retention laws.

#### ***Cause of Condition***

The Mayor and City Council have not placed a high priority on developing processes or ensuring internal controls are in place to safeguard public resources and effectively manage the City's financial operations.

#### ***Effect of Condition***

The lack of control and oversight of all aspects of the City's finances increases the risk that misappropriation or misuse could occur and not be detected in a timely manner, if at all. As an example we noted:

## **Bank Reconciliations**

- The City's has not formalized the process for documenting its monthly bank reconciliations. The City could not provide support for checks and warrants issued that had not cleared the bank at year end.
- The City's reconciliation process does not ensure accounting records are accurate and complete. The Treasurer did not clear warrants in the accounting records from the outstanding items as part of the reconciliation process.
- As part of the reconciliation process, the Treasurer recorded numerous accounting record deletions, additions and updates. These transactions were not supported by written documentation that identified the reason for the transaction or support that could validate the transaction's accuracy. As an example an \$80,000 grant reimbursement deposited to the bank in December of 2013, was initially recorded into the accounting records on May 21, 2014, deleted on May 22<sup>nd</sup> and entered back into the records again on May 22<sup>nd</sup>.

## **Utility Billing**

- The City's informal policy is that any account that has not been paid by the next billing cycle is charged a late fee. We analyzed all accounts for fiscal years 2013 and 2014 and noted approximately \$7,100 in late fees was waived by the Treasurer resulting in lost City revenue.
- Customer accounts were not promptly adjusted for payments made with Non-Sufficient Funds which caused utility bills to indicate incorrect amounts due.

## **Credit Cards and Charge Accounts**

- Department supervisors did not approve approximately \$8,200 charged on accounts for fiscal years 2013 and 2014. We also identified a duplicate payment of \$99 on one account where no credit was issued.
- The Treasurer did not consistently retain support for credit card purchases or pay the balance in a timely manner. We performed an analysis over credit card purchases for fiscal years 2013 and 2014 and noted 97 purchases totaling over \$9,000 were missing support. We also noted that the City paid more than \$1,400 in late fees and interest.
- The City allowed non-City employees representing McDonald Park to make purchases on City accounts. We identified at least \$860 of fuel purchased by non-employees for McDonald Park during the audit period

## Interlocal Agreements

- The City does not retain records for the McDonald Park expenditures or the determinations of the Steering Committee to ensure costs for maintaining the Park are properly allocated between the City and the Colfax School District.
- The City did not pay the power and water bills timely which resulted in late fees and penalties of over \$640.

## Recommendation

We recommend the City evaluate its policies and procedures over key financial operations to ensure that internal controls are adequately designed to safeguard public resources. Specifically,

- Develop and follow formal written policies over all key financial operations.
- Perform adequate monitoring procedures to ensure policies are adhered to and all payments serve a valid public purpose.
- Ensure staff prepares accurate and reliable accounting records.
- Improve segregation of duties related to customer utility functions or perform additional monitoring to compensate for the lack of internal controls.
- Adequately monitor the McDonald Park interlocal agreement to ensure compliance with the terms and conditions and the decisions of the Steering Committee.
- Ensure staff prepare and retain documents and records according to records retention schedules to support the validity of all financial transactions.

## City's Response

*We agree with the fact that many financial policies are dubious at best and utility billing is not standardized. However, the city began taking steps toward improvements before the audit began and is making steps to improve this deficit in the following ways:*

- **Intergovernmental Activities:** *The agreements between Colfax School District #300 and the City of Colfax, Washington for the operation and maintenance of McDonald, Schmuck, and Hamilton parks are currently being rewritten to include clear policy for how water bills are calculated, supplies bought, and how capital assets are purchased. The City Administrator and Finance Director reissued fuel cards to staff only. Non-employees no longer have access to fuel cards. Additionally, non-*

*employees were taken off of vendor accounts and all vendors were notified. A park code is being developed which will delineate how fees are charged across park facilities and how park equipment will be acquired and supported. City staff is working on a new financial and purchasing policy to reflect your exit recommendation.*

- **Payroll and Employee Reimbursements:** *We are developing comprehensive personnel and financial policies which will encompass the concerns you raised in the audit. The City started this work in January and plans to have it in place by the late Spring. Since the City Administrator arrived in July 2014, payments to all employees are supported by a source document and timesheets are signed by the appropriate staff.*
- **Utility Billing:** *We are working on a new code for utility billing to make it more straightforward and in line with best practices commonly utilized across municipalities of our size in the State of Washington, and in line with our loan holders. This work started earlier this year and will conclude in the late Spring.*

*The current City Administrator started in late July 2014 and the Finance Director's position was filled in October 2014. In addition to making the aforementioned changes, the City of Colfax takes note of the lack of financial policies and is working to rectify the situation. We are also working to update our fee schedule to better accommodate rising costs. We have made huge strides toward improving our financial situation in the recent months and will continue to act promptly on anything that is recommended to us through the State Auditor's Office. We do care and vow to make every effort toward being the best stewards of our taxpayers' money as possible.*

### ***Auditor's Remarks***

We thank City management and staff for their assistance during the audit. We will follow up on the status of these issues during our next scheduled audit.

### ***Applicable Laws and Regulations***

RCW 35.23.261 – Audit and allowance of demands against city.

All demands against the city shall be presented to and audited by the city council in accordance with such regulations as it may by ordinance prescribe; and upon the allowance of a demand, the clerk shall draw a warrant upon the treasurer for it, which warrant shall be



countersigned by the mayor and shall specify for what purpose it is drawn and out of which fund it is to be paid.

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 . . . .

## RELATED REPORTS

### **Financial**

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. We also noted certain matters that we communicated to City management in a letter dated April 2, 2015, related to the preparation of the financial statements. We appreciate the City's commitment to resolving those matters.

## INFORMATION ABOUT THE CITY

The City of Colfax is located in Whitman County and serves approximately 2,850 citizens. Its 20 employees provide an array of services including water, sewer, fire and police protection, park and recreation and planning and economic development. The City also operates its own swimming pool.

An elected, seven-member Council and independently elected Mayor govern the City. For fiscal years 2011, 2012 and 2013, the City operated annual budgets of approximately \$3 million.

Contact information related to this report	
Address:	City of Colfax P.O. Box 229 Colfax, WA 99111
Contact:	Candace Fisher, Finance Director
Telephone:	(509) 397-3861
Website:	<a href="http://www.colfaxwa.org">www.colfaxwa.org</a>

*Information current as of report publish date.*

## Audit history

You can find current and past audit reports for the City of Colfax 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.

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>