



Washington State Auditor's Office

Government that works for citizens

Accountability Audit Report

Town of Albion

Whitman County

For the period January 1, 2012 through December 31, 2014

Published April 14, 2016

Report No. 1016475





Washington State Auditor's Office

April 14, 2016

Mayor and Town Council
Town of Albion
Albion, 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,

A handwritten signature in blue ink, reading "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	6
Status Of Prior Audit Findings	16
Information About The Town	17
About The State Auditor’s Office	18

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 Clerk-Treasurer, Mayor and Town Council:

- Develop an appropriate filing system so that financial records are retained and retrievable.
- Develop and follow written policies over all key operations that comply with state law and Town ordinances and resolutions
- Establish internal controls over operations and monitor to ensure they are followed.
- Ensure staff prepare and retain documents according to records retention schedules to support the validity of financial transactions and official actions of the Council.

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 Albion from January 1, 2012 through December 31, 2014.

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:

- Accounting/financial reporting
- Billings/receivables
- Safeguarding of small and attractive assets such as computers
- Open public meeting minutes
- Legal authority for official actions taken
- Payments/expenditures
- Payroll/personnel
- Budget compliance

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Town does not have adequate internal controls over key operations.

Background

During the past two audits, we have reported concerns to the Town management and elected officials related to internal controls over key financial operations; documentation of official actions taken during Open Public Meetings and retention of public records. For fiscal years 2012 through 2014, we found similar conditions continue to exist. In addition, citizens also reported concerns in some of these areas.

Description of Condition

General financial operations

The Town does not maintain records in an organized manner. During our audit the Clerk-Treasurer was unable to find supporting documentation for selected transactions. We were unable to determine if the records were still in the possession of the Town or had been discarded in violation of records retention laws.

Payroll

The Town has two full-time and two part-time employees, and hires other employees on a seasonal or temporary basis. Its annual payroll is approximately \$96,000. During our review of payroll we noted:

- The Town Council does not approve payroll expenditures as an official action of the Board.
- In May 2014 the Superintendent of Public Work was not paid according to the salary rate approved by resolution.
- Overtime is being accrued each day for any hours over an 8 hour shift versus after 40 hours per Resolution No. 86-4 section 5.6; however in all weeks audited over 40 hours was achieved.
- We tested 100 percent of the 2014 leave balances and identified a number of errors.

- Six instances where beginning leave balances did not agree to the prior month's ending leave balance without support for the adjustment.
- Six instances where the amounts of leave earned did not agree to those approved in resolution 86-4.
- Two instances where the leave recorded as used did not agree to the supporting timesheets.

The accumulation of these issues created leave balance errors ranging from an understatement of 2.5 hours to an overstatement of 14 hours.

Open Public Meetings Act and meeting minutes

We tested Special and Regular Council Meetings from March 2013 through December 2014. Although we noted improvement, we identified the following concerns

- Town Council minutes did not document the purpose of executive sessions so the reason for conducting business in a closed session was not transparent and readily available for public inspection as prescribed by state law.
- Council approval of the Town's expenditures is not documented in the meeting minutes as prescribed by the Budget Accounting and Reporting System Manual. Since the minutes do not document the consistent sequence of voucher and payroll check numbers, the Town cannot ensure that all claims paid on behalf of the Town have been accepted and approved by the governing body as required by state law.

Cause of Condition

The Clerk-Treasurer, Mayor and the Town Council did make efforts towards addressing prior recommendations; however not enough improvements have been made to ensure appropriate written policies and internal controls exist.

- The Town does not have adequate written policies outlining responsibilities and expected practices for processing payments nor adequate monitoring of all expenditures to validate their legal and allowable purpose.
- The Town does not have policies for its credit cards as required by state law and the Budgeting, Accounting and Reporting Systems manual which prescribes local government financial reporting.

- The Town did not have policies to formally approve payroll rates until December of 2013 and did not have monitoring controls to ensure compliance with Town policies.

Effect of Condition

When the Town does not retain and store its records in a manner that allows for easy retrieval, it cannot demonstrate that it has complied with records retention laws, can support the validity of its financial activities nor timely provide requested information to the public.

The lack of control and oversight 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.

Council meetings minutes provide a record of Town's official actions. Financial records provide information to the public and other interested parties that funds collected were spent for a valid public purpose. When these records are inaccurate or incomplete it limits the Town's ability to conduct business in a transparent manner and be accountable to its citizens.

Recommendations

We recommend the Clerk-Treasurer, Mayor and Town Council:

- Develop an appropriate filing system so that financial records are retained and retrievable.
- Continue to improve written policies over all key operations that comply with state law and Town ordinances and resolutions.

Establish internal controls over operations and monitor to ensure they are followed.

- Ensure staff prepare and retain documents according to records retention schedules to support the validity of financial transactions and official actions of the Council.
- Prepare and retain records that clearly demonstrate compliance with the Open Public Meetings Act and provide an accurate record of Council actions for easy inspection by the public.

Town's Response

The Town thanks the SAO for its service and dedication to ensuring proper municipal regulations are followed. The Town acknowledges the need to implement some changes in record keeping and retention in order to maintain transparency.

Additionally, the Town would like it noted that great improvements have been made, since the preceding audit, in all areas up to and including financial accounting. All records were accurate and the financial analysis indicated no discrepancies.

Payroll:

The makeup of the time sheets used by the Town requires the hours per day over 8 to be noted. Following resolution 86-4, OT calculations due not accrue until 40 hours is reached.

Open Public Meetings Act and meeting minutes

All minutes reflect announcement of executive sessions and the times. The purposes of executive session were always publicly announced but not noted in minutes (recorded meetings support this Per RCW 42.32.030). Procedural rules regarding this matter have been addressed.

All expenditures are part of the minutes and are approved in full. Each month, the check register, which includes all voucher numbers, is attached to all minutes. This procedure was changed with approval from the previous auditor. Payroll checks were not included because they were not individually approved by council.

Cause of Condition

It is the responsibility of senior administration to ensure all policies are followed and the Mayor did not perform these duties adequately. New administration is approving and performing check and balances. Newly elected Council members are ensuring needed policies and procedures are in place and being followed.

Effect of Condition

The public records act allows the entity to determine the time it needs to provide requested records without undue hardship. The Town of Albion is small and does not have the resources to provide requested records as quickly as larger municipalities who have employees and resources dedicated to the cause. Further, the Town was able to produce all records and any indication otherwise is inaccurate.

At this time, the Town would like to note several items that have made this audit an UNDUE burden.

- 1. The 2012-2014 audit was performed by three separate auditors.
 - a. The same items were requested repeatedly by each auditor. The Clerk/Treasurer was required to produce the same records for each separate auditor creating undue hardship and difficulty in maintaining daily duties.*
 - b. Some items requested by one auditor were not required by another and have subsequently been noted as items not available upon request. All items were available and provided upon request.*
 - c. Item a & b above indicate a lack of communication between auditors, ensuring a lack of integrity in audit results.**
- 2. Financial statements for neighboring municipalities were present in the audit notebook for the Town of Albion, making it difficult to determine if audit results were inadvertently interchanged.*
- 3. Interpersonal relations between Town staff, elected officials and the SAO has deteriorated due to clarification requests for assistance made by the Town. At times, the difficulties experienced in receiving assistance or clarification has created undue hardship. Due to these relations, the Town would like to note a certain apprehension that audit results are accurate and not influenced by negative interpersonal relations. However, the Town and the auditors were able to meet and come to some resolution.*
- 4. Recommendations made by this team of auditors directly opposes recommendations by previous auditors. The Town would like to note that many current recommendations do not meet RCW requirements but seem to be opinions issued by the auditor in question. The Town intends to implement each recommendation currently made so as to follow “Best Practice” rather than strictly following RCW requirements.*

Auditor’s Remarks

We appreciate the steps the Town’s management is taking to resolve the issues identified and for meeting with us on multiple occasions to ensure we received all the records necessary to complete the audit. Follow up will be performed on the Town’s changes during our next audit.

Applicable Laws and Regulations

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.

RCW 35.27.220 – Town Clerk – Duties, states in part:

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 42.32.030 – Minutes.

The minutes of all regular and special meetings except executive sessions of such boards, commissions, agencies or authorities shall be promptly recorded and such records shall be open to public inspection.

RCW 42.30.110 – Executive Sessions, states in part,

(2) Before convening in executive session, the presiding officer of a governing body shall publicly announce the purpose for excluding the public from the meeting place, and the time when the executive session will be concluded. The executive session may be extended to a stated later time by announcement of the presiding officer.

RCW 35.27.340 – Audit and allowance of demands against town.

All demands against a town shall be presented to and audited by the council in accordance with such regulations as they may by ordinance prescribe. Upon allowance of a demand the mayor shall draw a warrant therefor upon the treasurer; the warrant shall be countersigned by the clerk and shall specify the purpose for which it is drawn.

The town clerk and his or her deputy shall take all necessary affidavits to claims against the town and certify them.

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.

RCW 43.09.2855 – Local governments – Use of credit cards.

(1) Local governments, including counties, cities, towns, special purpose districts, municipal and quasi-municipal corporations, and political subdivisions, are authorized to use credit cards for official government purchases and acquisitions.

(2) A local government may contract for issuance of the credit cards.

(3) The legislative body shall adopt a system for:

(a) The distribution of the credit cards;

(b) The authorization and control of the use of credit card funds;

(c) The credit limits available on the credit cards;

(d) Payment of the bills; and

(e) Any other rule necessary to implement or administer the system under this section.

(4) As used in this section, "credit card" means a card or device issued under an arrangement pursuant to which the issuer gives to a card holder the privilege of obtaining credit from the issuer.

(5) Any credit card system adopted under this section is subject to examination by the state auditor's office pursuant to chapter 43.09 RCW.

(6) Cash advances on credit cards are prohibited.

Budget Accounting and Reporting System Manual:

3.1.3.20 Internal control is a process – affected by those charged with governance, management and other personnel designed to

provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

3.1.3.30 Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

3.8.5.30 The certification by the auditing officer in no manner relieves members of the governing body from the responsibility and liability for each voucher approved. It is the governing body's responsibility to ensure that the system of auditing and certifying vouchers is operating in a manner to provide the greatest possible protection for the governing body

3.8.5.40 To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

The following voucher/warrants/electronic payments are approved for payment:

(Funds)	Total
Voucher (warrant)	
numbers: _____ through _____	\$ _____
Payroll warrant	
numbers: _____ through _____	\$ _____

3.8.5.70 The original copy of all vouchers should be filed in the office of the auditing officer of the municipality. The detailed accounts to which the expenditures are to be posted must be clearly designated. Supporting documentation must be retained and either attached to the vouchers or canceled by the auditing officer to prevent reuse.

Town Resolution No. 86.4, Section 5.5 OVERTIME:

Overtime shall be granted only upon approval of the department head or Chief Administrative Officer. For each hour worked beyond a normal work week (or 40 hours) at a basic rate of time and one-half for each hour worked. Whenever an employee is specifically authorized or required to work overtime, he or she shall receive overtime pay to the nearest half hour. Employees may have the option of taking compensatory time off in lieu of overtime pay at the rate of one and one-half hours or days off for each overtime hour or day worked. If an employee chooses to take the compensatory time in lieu of overtime pay, such time off shall be arranged so as to not disrupt or interfere with necessary Town work.

Department heads or certain other designated members of the management team of the Town may not be eligible for overtime compensation.

STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Town of Albion. The State Auditor's Office has reviewed the status as presented by the Town.

Audit Period: January 2008 – December 2011	Report Ref. No.: 1009178	Finding Ref. No.: 1
Finding Caption: The Town of Albion has insufficient internal controls over meeting minutes, ordinances and resolutions to ensure records of Town activities were retained and available to the public.		
Background: Due to key staffing turnover, not all requested records were not available, in complete form, for proper audit. Town Council was recommended to establish internal controls, such as policies and procedures to ensure proper compliance and evidence of: <ul style="list-style-type: none"> • Public records are safeguarded, retained and open to public inspection as required by state law • The annual budget and any amendments are adopted as required by state law • Review and approval of Town expenditures is documented in official meeting minutes as required by the <i>Budgeting and Accounting reporting System Manual</i> (BARS). 		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input checked="" type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> No Corrective Action Taken </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>Public Records: Ordinance 363, adopting the Public Records Act was approved on October 9, 2012. Ordinance 364, implementing the Public Record Act was also approved on October 9, 2012.</i> <i>Final budget is not published with Ordinance notice.</i> <i>Minutes did not have prescribed documentation of expenditures within the meeting format and that the BIAS' system generated Warrant Check Register was not retained for all meetings.</i> <i>All computers used for Town business will have an external hard drive connected with requirements to back up regularly.</i>		

INFORMATION ABOUT THE TOWN

The Town of Albion serves over 600 citizens in Whitman County. It is administered by five elected Council Members, and an independently elected Mayor.

The Town operated on annual expenditures of \$956,592, \$471,887, and \$393,619 for 2012, 2013, and 2014, respectively. Its two full-time and part-time employees provide street improvement, parks, and general administrative services. The Town also owns and operates a water/sewer distribution and collection system.

Contact information related to this report	
Address:	Town of Albion 310 F. Street Community Building P.O. Box 38 Albion, WA 99102-0038
Contact:	Starr Cathey, Clerk/Treasurer
Telephone:	(509) 332-5095
Website:	www.albionwa.com

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Town of Albion 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	
Deputy Director for Communications	Adam Wilson Adam.Wilson@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov