



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Accountability Audit Report**

**City of Chelan**

**Chelan County**

**For the period January 1, 2016 through December 31, 2016**

**Published November 6, 2017**

**Report No. 1020144**





**Office of the Washington State Auditor**  
**Pat McCarthy**

November 6, 2017

Mayor and City Council  
City of Chelan  
Chelan, 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,

Pat McCarthy  
State Auditor  
Olympia, WA

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## 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 most areas we examined.

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

We recommended the City establish internal controls to track and safeguard its fuel usage. We also recommended that Golf Course management comply with the City's policies for refunds and voids, extension of customer credit, and annual inventory requirements for Pro Shop merchandise.

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 City of Chelan from January 1, 2016 through December 31, 2016.

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:

- Self-insurance
- Golf course operations
- Significant accounting systems
- Disbursements
- Fuel

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2016-001 City of Chelan lacked adequate controls over financial operations at its Municipal Golf Course.**

#### ***Background***

The City of Chelan owns the Lake Chelan Municipal Golf Course, consisting of an 18-hole golf course, a driving range and a clubhouse containing a pro shop, restaurant and meeting area. The Golf Course generates about \$1 million in annual revenue for the City. We have reported weaknesses over golf course operations in the last nine audits, including our 2009 audit that reported a misappropriation accomplished through fictitious refunds and voided receipts.

The City has made several improvements to operations in response to our prior audit recommendations. However, the Golf Course still has weaknesses in internal control.

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

##### Safeguarding of fuel

Golf Course personnel were not recording the refueling of the golf carts on fuel use logs. In addition, the Parks Department did not have a fuel use reconciliation process to detect loss of fuel at the Golf Course. The Golf Course purchases about \$16,500 of fuel each year.

##### Adherence to City policy

Golf Course management did not consistently follow the City's established Pro Shop policy, which the City updated in April 2016 to address previous audit recommendations. Specifically:

- Refunds and voids: Four of the 25 refunds and voids we examined were not documented on a "Refund and Void Log" as policy requires. Additionally, neither the Golf Professional nor the Assistant Golf Professional performed the required weekly reconciliation of the "Refund and Void Log" to the system report of refunds and voids.
- Accounts receivable: Golf Course employees continued to occasionally extend credit to customers even though City policy does not allow this type of credit. Golf Course management has made improvements in this area; however, the City's August 2017 accounts receivable report showed five new customers with a combined credit of \$441 since our prior audit.

- **Inventory:** An independent inventory of Pro Shop merchandise was not performed in 2016 as required by policy, although Golf Course management performed an inventory.

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

Pro Shop staff occasionally make decisions inconsistent with the City's policies and procedures for Golf Course financial operations, and City management does not provide adequate monitoring of compliance with these policies. City staff have not implemented a reconciliation process for Golf Course fuel use.

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

Ineffective controls increase risk of loss or misappropriation at the Golf Course.

City records and employee fuel use logs do not account for about 3,000 gallons of fuel each year from 2014 to 2016. Due to insufficient records, we cannot determine if all fuel used at the Golf Course was for City purposes. We estimate the value of unaccounted fuel in 2016 to be about \$8,150.

### ***Recommendations***

We continue recommending the City establish internal controls to track and safeguard its fuel usage.

We also recommend that Golf Course management comply with the City's policies for refunds and voids, extension of customer credit and annual inventory requirements for Pro Shop merchandise.

### ***City's Response***

#### ***Safeguarding of fuel***

*Fuel consumption logs were not properly maintained and/or safeguarded and none are available for 2016. Logs reportedly have been kept in 2017 and auditors were given copies of those logs during the audit. The Parks and Recreation Director has submitted a capital request for a CardMaster II Fueling Code Control System for the fueling station to create more accurate fueling logs and will be tasked with implementing and enforcing policies to ensure the accountability of all fuel. The fueling station has been presented to city council for 2018 budget appropriation.*

#### ***Adherence to City Policy***

- **Refunds & Voids:** *Golf course management staff checks the end-of-the-day transaction report to look for any significant (> \$10) refunds or voids that were not recorded on the logs. The City will stringently enforce Policies*

*and Procedures that refunds or voids in any amount will be reconciled with the logs on a bi-weekly basis. After the reconciliation is completed, copies of the logs will be sent to the Parks Director and forwarded to the Finance Director and City Administrator.*

- *Accounts Receivable: The five cases referred to by the auditors as extending credit involved customers that had been awarded gift certificates for the Pro Shop through various tournaments held in 2016. Going forward, the City will stringently enforce Policies and Procedures requiring that purchases made with gift certificates will have any amount exceeding the value of the gift certificate collected at time of sale.*

### *Inventory*

*The 2016 independent inventory (typically done by employees in other city departments) was not completed, however the inventory required to be performed by golf course staff was. This was an oversight. The 2017 independent inventory is already scheduled to be completed in November.*

*City of Chelan administration wishes to thank the State Auditor's Office for its diligence in making recommendations to better safeguard city assets. We take seriously the responsibility of both safeguarding these assets and implementing recommendations from the auditors.*

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

We thank the City of Chelan for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the City's corrective action during our next audit.

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

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

## RELATED REPORTS

### **Financial**

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.



## INFORMATION ABOUT THE CITY

The City of Chelan serves over 4,000 citizens in Chelan County. The City provides an array of services including water, sewer, garbage, parks and recreation and planning. The City also operates an RV park, marina, an 18-hole golf course and a professional putting course.

An elected, seven-member Council and an independently elected Mayor govern the City. The Mayor hires an Administrator to oversee the City's daily operations as well as its 45 full-time employees and 54 additional seasonal employees. For fiscal year 2016, the City had annual expenditures of approximately \$16.9 million.

### Contact information related to this report

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*Information current as of report publish date.*

### Audit history

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
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