



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Wapato

Yakima County

For the period January 1, 2015 through December 31, 2017

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Office of the Washington State Auditor
Pat McCarthy

April 2, 2018

Mayor and City Council
City of Wapato
Wapato, 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 independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the 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 RESULTS

This report describes the overall results and conclusions for the areas we examined. In the areas we examined, City operations did not comply with applicable state laws, regulations, or its own policies. Additionally, the City did not provide adequate controls over safeguarding of public resources. As referenced above and described in the attached findings, we identified areas in which the City could make improvements.

We recommended the City establish internal controls to safeguard public funds from loss or misappropriation of funds in the following areas:

- Jail and Police Department activities
- Cash receipting, billing and cemetery services
- Disbursement and credit card transactions

We also recommend the City develop and follow a policy that governs how the City calculates and charges shared services costs to all funds. Costs should be charged in proportion to the level of service or benefit provided to each fund.

These recommendations were included with our report and in a separate communication as findings.

As referenced above, we also noted certain matters that we communicated to the City management and City Council in a letter dated March 26, 2018 related to complying with the City's nepotism policy. We appreciate the City's commitment to resolving those matters.

Further, in October 2017 the City notified our office of a suspected loss of public funds and we are currently conducting an investigation.

About the audit

This report contains the results of our independent accountability audit of the City of Wapato from January 1, 2015 through December 31, 2017.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the years ended December 31, 2017, 2016 and 2015, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open Public Meetings Act
- Utility billings – calculation of amounts billed to customers and the calculation and reporting of utility tax transactions
- Cash receipting – City Hall
- Payroll, contracts and hiring procedures
- Police Department and Jail – cash receipting, inmate commissary accounts and inmate housing contracts
- Independent review and timely completion of bank reconciliations
- Disbursements and credit card activity including the established internal controls
- Allocation of shared costs to restricted funds
- Cemetery inventory, billings and receipting including the established internal control systems
- Conflict of interest and gifting of public funds
- Appropriate use of license tab fee revenue

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The City's Police Department and Jail did not have adequate oversight of operations to safeguard public resources.

Background

The Police Department and Jail collected \$178,748 and \$177,076 for fees, housing of inmates and the sale of commissary items in 2016 and 2017, respectively. City management is responsible for developing policies and ensuring adequate controls are in place over operations.

The previous two audits identified and discussed with management concerns regarding controls over operations at the Police Department and Jail. The City has not taken steps to improve controls in these areas.

Description of Condition

We reviewed internal controls over Police Department and Jail activities and identified control deficiencies in the following areas:

Inmate Commissary Accounts

At the time it books an inmate, the City often collects cash or possessions that must be held in trust for the inmate. In addition, inmates can use funds held in their trust account to order commissary items, such as food, and hygiene and basic clothing items, once a week. The City contracts with a third-party vendor to manage inmates' property and commissary accounts. We identified the following control weaknesses regarding inmate commissary accounts:

- The City did not have proper oversight over the vendor's activities, which include receipting payment for commissary accounts, fulfilling commissary orders, reconciling the commissary trust fund and remitting inmate deposits to the trust fund. Although the Clerk-Treasurer performs a high-level review of activity, this person does not have the in-depth knowledge of inmate activity needed to perform an effective review.
- The City did not retain documentation of eight inmate signatures indicating agreement with the list of items or money turned over to the jail at the time of booking, or the inmate's signature indicating that all items were returned upon the inmate's release. As a result, the City cannot verify that the inmates' possessions and money were adequately tracked and safeguarded.

- The City did not ensure inmates signed for the delivery of commissary orders to confirm all ordered items were received. The City did not retain documentation for seven commissary orders, totaling \$64. As a result, the City cannot verify the inmates received commissary orders they paid for.

Inmate Housing Contracts

The City houses inmates for other local agencies under separate contracts. The Jail invoices these agencies monthly. We noted the following control weaknesses in inmate housing billings:

- The Jail could not generate reports showing outstanding balances for inmate housing.
- Billing and cash receipting duties for the housing of inmates were not segregated.
- The City does not use consistent contracts for inmate housing. Some contracts are based on monthly rates and others are based on the number of inmates housed for the month. The City's independent review of monthly invoices was not sufficient to ensure amounts billed use the correct calculation to determine the amount due. During the audit period, twenty-four monthly inmate housing billings were incorrectly calculated. As a result, the City under-billed contracts by \$7,736 and was not fully compensated for the services provided.

Cash Receipting

We identified the following control weaknesses in cash receipting at the Police Department:

- The Police Department lacked proper segregation of duties over cash handling procedures. Multiple cashiers have access to the same cash drawer, and an employee assigned to receipt funds is also responsible for depositing the funds at City Hall. There is no secondary review of deposits to ensure they are complete and that the payment methods (cash, check, or credit card) agree to receipting records.
- The Police Department did not ensure deposits occur within 24 hours as state law requires. We reviewed Police Department deposits and identified four deposits that occurred seven to 36 days after the receipt of funds and eight receipts, totaling \$115, did not include the payment method.

- No one performs a secondary review of voided receipts to ensure the voids are for valid purposes. Six receipts were voided for the days tested. A secondary person did not review any of these voided receipts, totaling \$109, and the top copy for the three of the receipts, totaling \$106, was not retained. When voiding receipts, all copies of the receipts must be retained.

Cause of Condition

The City has not devoted sufficient time and resources to establish proper controls over and segregation of duties in the areas identified. The City has also experienced turnover in the Police Chief and other staff positions and did not communicate prior audit recommendations to new staff members.

Effect of Condition

Inadequate internal controls over Police Department and Jail activities increase the risk that a loss or misappropriation of public funds could occur and not be detected by management quickly, if at all. Further, the City cannot ensure it is fully compensated for the services provided.

Recommendations

We recommend the City:

- Ensure an employee with in-depth knowledge of inmate activity oversees third party vendor activities, including commissary fund activity, fulfillment of commissary orders, and reconciliation of the commissary trust fund
- Require inmates to certify exchanges of property and cash at the time of booking and release, and retain this documentation
- Maintain receipts signed by inmates for commissary items ordered
- Establish a process to ensure it bills inmate-housing contracts correctly
- Properly segregate billing and cash receipting duties
- Establish procedures to ensure receipts are reconciled to cash, check and credit card payments, and that amounts are deposited promptly
- Establish an independent review of voided receipts and retain all copies of voided receipts

City's Response

The City of Wapato appreciates the Auditor's work and review on this matter. The city intends to implement the Auditor's recommendations so this issue does not arise in the future.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank City staff for their cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 70.48.090 – Interlocal contracts for jail services – Neighboring states – Responsibility for operation of jail – City of county departments of corrections authorized.

RCW 70.48.071 – Standards of operation – Adoption by units of local government.

RCW 43.09.240 – Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections

Budgeting Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Controls over Financial Reporting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-002 The City did not have adequate controls over cash receipting at City Hall or effective monitoring of cemetery inventory, billing and receipting to safeguard public funds.

Background

The City collects annual operating revenues between \$8 million and \$9.5 million each year. The City's main revenue sources include property taxes and sales taxes, which are primarily collected through electronic fund transfers, and services for water, sewer, jail and cemetery that are collected at City Hall and other locations. In addition, the City collects about \$50,000 each year from the sale of dog licenses, business licenses, yard-sale permits, and rentals of the community center and park.

City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance that public resources are safeguarded. During our audit, we found the City did not have policies over cash receipts to ensure that all money collected is deposited intact and properly accounted for.

Description of Condition

We identified the following control deficiencies over cash receipting at the City Hall:

- The City did not perform an independent or timely review of the monthly bank reconciliation to verify that all funds collected were deposited intact. The person responsible for reconciling cash receipts also was responsible for delivering the deposit to the bank and reconciling the monthly bank statements, which does not provide adequate segregation of duties. The City reconciled the last nine months of bank statements for 2016 in May 2017, and the bank statements for January through November 2017 in December 2017. During the course of reconciling bank statements, the City identified a suspected loss of funds and notified our Office in October 2017 and we are currently conducting an investigation.
- The City did not have a process in place to verify that all revenue was collected for the sale of items such as dog licenses, business licenses, yard-sale permits and facility rentals.

- The City did not have a method for comparing the number of dog licenses, yard-sale permits or business licenses sold for the year to actual revenue collected, to ensure all funds were collected and deposited.
- The City did not compare the number of community center and park rentals to the amount of money collected. Although the City typically retains the rental application forms, it does not have a process to reconcile the number of rentals to the amount of money collected. Additionally, the City did not retain the park rental applications for 2015.

In addition, we identified control deficiencies over billing and receipting for Reservation Community Memorial Park. The City receipted \$120,164, \$138,867 and \$72,507 for cemetery services in 2015, 2016 and 2017, respectively. We reviewed the City's billing and receipting processes for cemetery services and noted:

- The City did not have an independent review of plot inventory to verify all sales and subsequent burials were recorded. As a result, the City's documentation for cemetery plot inventory did not accurately reflect that two plots were occupied. Although the records reflected a pre-payment, they were not updated to show that the burial had occurred.
- The City did not have a billing system for cemetery services. When billing customers, the City sent emails indicating amount due. The City did not perform an independent review to verify all services were billed, collected and deposited. The City did not have documentation showing that it billed or collected funds for eight cemetery services totaling \$13,165. During the audit, the City collected \$2,210 of this amount.
- The individual responsible for billing for cemetery services was also responsible for receipting cemetery payments, preparing and making deposits to the bank, and reconciling the bank account. The City did not perform an independent review of this activity.

Cause of Condition

The City has not devoted the time and resources needed to ensure adequate controls, segregation of duties and effective oversight are in place over cash handling and receipting, and billing.

Effect of Condition

Inadequate internal controls over the City's activities and lack of proper oversight increase the risk that a loss or misappropriation of public funds could occur and not be detected by management quickly, if at all.

As noted above, in October 2017 the City notified our office of a suspected loss of public funds and we are currently conducting an investigation.

Recommendations

We recommend the City strengthen internal controls over cash receipting and billing to ensure public funds are adequately safeguarded from loss or misappropriation. Specifically, we recommend the City:

- Establish a policy that outlines guidelines regarding cash handling, segregation of duties and independent reconciliations
- Establish controls over unanticipated revenues and ensure they are all recorded in the receipting system
- Properly segregate duties of cash receipting and depositing
- Ensure an employee who is independent of the receipting process performs timely bank reconciliations
- Strengthen controls over the tracking of cemetery plots and ensure records are updated when plots are sold and burials occur
- Perform an independent review of cemetery billings and receipts to verify that all services are billed promptly and all revenue is collected and deposited

City's Response

The City of Wapato appreciates the Auditor's work and review on this matter. The city intends to implement the Auditor's recommendations so this issue does not arise in the future.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank City staff for their cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.240 – Local government accounting – Public officers and employees
– Duty to account and report – Removal from office – Deposit of collections

RCW 43.09.210 – Local government accounting – Separate accounts for each fund
or activity – Exemption for agency surplus personal property

RCW 68.32 – Title and Rights to Cemetery Plots

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting
Principles and Controls, Internal Control, Controls over Financial Reporting

BARS Manual 3.6.1 – Cash Receipting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-003 The City did not have adequate internal controls over disbursements and credit card activity to safeguard public resources.

Background

The City spends about \$7 million a year on operating expenditures. Of this, at least \$50,000 each year is paid through City credit cards.

In addition, the City donated \$12,000 to local organizations during the audit period. State law allows Cities to donate funds to organizations if these donations are supported, allowable and approved by the governing body, and if the benefit the City receives in exchange for these funds is clearly identified.

Description of Condition

The City does not have adequate procedures in place over disbursements and credit card activity to safeguard the use of public funds, or to prevent the appearance of a conflict of interest or gifting of public funds. Specifically:

- The City does not have a policy governing credit card activity that outlines when credit cards are allowed for use and does not require employees to provide itemized receipts for credit card and voucher transactions. Two credit card transactions totaling \$65 were not supported by an itemized receipt, and one transaction for \$78 paid through the voucher process did not have support for the miscellaneous refund. Also, the City's travel policy allows credit cards to be used only for travel purposes; however, the City is using the credit card for general purposes as well as travel.
- Before June 2017, the City did not pay the balance on the monthly credit card statement each month. Instead, the City only paid transactions that were supported by invoices. Any remaining transactions without support were not paid until the support was obtained from the applicable employee, resulting in the City incurring interest charges. Since the City did not pay the balance on the monthly credit card statements, one lodging transaction for \$728 was paid through the credit card twice: once based off the hotel confirmation and the second time with the itemized receipt.
- The City did not reconcile receipts to the credit card statement promptly to ensure all credit card transactions were properly supported or for a valid

purpose. In December 2015, in an effort to bring the outstanding balance current, the City paid the outstanding credit card balance of \$311. The City could not obtain support from employees for these transactions to determine whether the purchases were for appropriate business purposes.

- The City paid donations to a local community organization totaling \$12,000. Donations are not an allowable purpose for public monies and the City did not retain sufficient documentation to clearly identify the benefit the City received in exchange for payments to this local community organization.
- A City Council Member who is listed as an official for this local community organization did not abstain from voting on the approval of three out of five disbursements to this organization, totaling \$7,000. In addition, City Council meeting minutes showed Council approval for only four of the five disbursements. The City could not provide evidence that Council approved the fifth disbursement, which totaled \$2,500.

Cause of Condition

Management and City Council did not hold staff accountable for retaining supporting documentation for credit card disbursements and did not make it a priority to provide policies and procedures over effective credit card use. Staff responsible for reconciling the credit card statements did not take steps to inform management and City Council of the effect of not requiring support for credit card transactions.

In addition, management and City Council did not provide sufficient oversight over disbursements to ensure public funds were used for a valid business purpose, properly supported and free from a conflict of interest.

Effect of Condition

Inadequate internal controls over disbursement and credit card transactions increase the risk that a loss or misappropriation of public funds could occur and not be detected by management quickly, if at all.

Recommendations

We recommend the City:

- Establish a credit card policy outlining the appropriate use of credit cards and requiring employees to submit itemized receipts for all transactions

- Ensure monthly credit card statements are reconciled to ensure that all transactions are properly supported, for allowable purposes and approved before paying the credit card vendor
- Ensure key officials abstain from decision making on activities with parties when the officials have an actual or appearance of conflict of interest
- Retain sufficient documentation to support all transactions

City's Response

The City of Wapato appreciates the Auditor's work and review on this matter. The city intends to implement the Auditor's recommendations so this issue does not arise in the future.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank City staff for their cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

RCW43.09.2855 – Local Governments – Use of credit cards

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

RCW 42.23.040 – Remote interests.

RCW 42.23.070 – Prohibited Acts.

RCW 35.21.100 – Donations – Authority to accept and use

RCW 35.21.703 – Economic development programs

Budgeting Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Controls over Financial Reporting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-004 The City did not have adequate controls over the allocation of shared costs to restricted funds.

Background

Cities may charge costs incurred for their central service functions, such as general administration, human resources, payroll and purchasing, to the funds that benefit from the services. Cities should charge costs in proportion to the benefit received. The City has a responsibility to adopt a fair and equitable method of distributing shared costs among departments and funds and to document the benefit received when applying these charges. Additionally, state law prohibits resources restricted for specific uses, such as utilities that collect usage-based fees from citizens, to benefit or subsidize other functions of government.

Description of Condition

We reviewed the allocation of shared costs at the City and found:

- The City did not have written policies adopting a fair and equitable method of allocating costs.
- The City did not compare allocated costs to actual expenditures to determine the reasonableness of the allocations.

We communicated this issue to City management during the past two audits.

Cause of Condition

The City has not devoted sufficient time and resources to develop adequate controls and oversight over cost allocations. In addition, the City has not made it a priority to ensure that prior audit recommendations are resolved promptly.

Effect of Condition

The City allocated the following central service costs to its restricted funds during the audit period:

Restricted fund	2015	2016	2017
Water	\$52,450	\$61,135	\$87,850
Sewer	\$44,675	\$55,800	\$67,825
Cemetery	\$21,705	\$24,700	\$23,225
Garbage	\$5,080	\$7,075	\$11,820
Streets	\$23,775	\$25,850	-
Equipment Rental and Revolving, and Public Works Service Center	\$16,490	\$22,775	\$15,000
Total	\$164,175	\$197,335	\$205,720

The City Council has not adopted a policy outlining how these amounts were fair, equitable or representative of the services received by each fund. The City also did not perform a comparison of actual to budgeted costs to ensure actual expenditures allocated were reasonable. Further, the City is unable to show that it complied with state laws that prohibit shifting restricted resources to other funds. If the increased costs allocated to restricted utility funds are not reasonable, City utility customers could have to pay higher rates unnecessarily.

Recommendation

We again recommend the City develop and follow a policy that governs how the City calculates and charges shared services costs to all funds. Costs should be charged in proportion to the level of service or benefit provided to each fund. To accomplish this, the policy should specifically require the City to:

- Develop and use a cost allocation plan for charging shared services across funds. The plan should include a reconciliation of actual expenditures to budgeted amounts if budgeted amounts are used for cost allocations.
- Document the amounts charged and support for the charges
- Periodically review and update the policy and the cost allocation plan for charging shared services costs

City's Response

The City of Wapato appreciates the Auditor's work and review on this matter. The city intends to implement the Auditor's recommendations so this issue does not arise in the future.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank City staff for their cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.210 Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property.

RCW 35A.33.122 Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized.

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 Wapato was incorporated in 1908 and covers four square miles in Yakima County. Currently, it serves approximately 4,500 citizens.

A mayor-council form of government administers the City with an elected, seven-member Council and an independently elected Mayor. The City operates on an annual operating budget of approximately \$6.6 million. The City's 36 full-time and three part-time employees provide services including police, jail, fire protection, Municipal Court, parks and recreation, and public works.

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 Wapato 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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