



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Mabton

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

Published November 8, 2018

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

November 8, 2018

Mayor and City Council
City of Mabton
Mabton, 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 most of the areas we examined, City operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the City could make improvements.

About the audit

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

- Utility billings and cash receipting at City Hall
- Payroll – wage recalculation, overtime and compensation of officials
- Conflict of interest/ethics laws
- Asset tracking for Public Works and City Hall
- Accounts payable – general disbursements, credit card activity and employee reimbursements
- Financial condition and fiscal sustainability
- Selected IT security policies, procedures, practices, and controls protecting financial systems, IT systems, and data

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The City did not have adequate internal controls over utility billings and cash receipting to safeguard public resources.

Background

The City collected about \$1.35 million in 2017, \$1.22 million in 2016 and \$1.2 million in 2015 for water, sewer and garbage services. The City bills utility customers monthly and collects money directly at the City Hall. The Budgeting, Accounting and Reporting System (BARS) Manual requires the City to perform a reconciliation of cash and checks collected to the deposit. In addition, state law requires the City to deposit receipts daily.

The City Municipal Code (Code) requires the City to charge a late fee to accounts that are unpaid as of the 15th day of the month. If the customer has not paid by the 15th day of the next succeeding month, the City must deliver a delinquency notice. If the customer does not contest the bill's validity in writing to the City Council or pay the account in full within 10 days of this due date, the City must turn customer utilities off. As of August 2018, outstanding utility accounts totaled \$156,788, of which \$9,110 is more than 90 days past due and \$23,562 over 60 days past due. City management is responsible for establishing effective controls to comply with City policies and safeguard public funds.

Description of Condition

We identified the following deficiencies in internal controls over utility billings and cash receipts:

- The City did not perform an adequate reconciliation of the daily receipts to the amount deposited to verify all cash and checks collected were deposited. Further, the independent review of this reconciliation was not adequate to detect discrepancies, because the reconciliation did not include a system report showing the amount collected in the forms of cash and checks.
- One person was responsible for reviewing billing adjustments, voids, deletions and unattached receipts (i.e., receipts not yet included in a deposit reconciliation); however, this person was not independent of the cash receipting process. In addition, the City did not keep documentation to show that a review of this activity was performed.
- The City did not follow Code for overdue accounts, because it did not shut off utilities for past-due accounts.

Cause of Condition

The City has not dedicated adequate time, resources and training to the cash receipting process to address prior audit recommendations. Also, City management and Council have not prioritized collecting on overdue accounts.

Effect of Condition

When proper internal controls are not established, the likelihood increases that misappropriation or misuse of public funds could occur and not be detected quickly, if at all. Also, the City's lack of controls and compliance over utility accounts could result in continued decline in revenues and financial condition.

Our audit specifically noted the following:

- Eight deposits for which the deposit slip and the receipting report did not agree. In all cases, more cash was deposited than the City reported in the receipting system, for a total difference of \$2,965. This was also identified in the prior audit.
- The City did not shut off utilities to the 10 overdue accounts tested that exceeded the required deadline. Also, the water for one account was turned off due to nonpayment, but the City later turned water services back on despite not receiving full payment for the outstanding balance as required by City Code.
- Three City officials did not keep their personal utility accounts current. These accounts ranged from \$448 to \$553 overdue at the end of July 2018. Of this amount, between \$230 and \$303 on each account was at least 60 days past due. This gives the appearance of a conflict of interest (special privileges), which violates state law.

Recommendations

We recommend the City:

- Establish internal controls over the utility and cash receipting systems to provide appropriate segregation of duties and accountability over billings, revenues and receipts
- Reconcile receipts to verify that the cash and checks collected agree to the amounts recorded in the bank deposit.
- Properly support all accounts receivable adjustments, including the review and approval by an individual independent of the billing and receipting process

- Follow City Code for overdue accounts by ensuring customers are paying in a timely manner and following up on overdue accounts as required

City's Response

The city has put policies in place that establish controls and provide appropriate segregation of duties. The Deputy City Clerk will record all monies coming in to city hall which is then verified by the City Clerk and then verified again by the City Treasurer. This ensures what was collected and recorded has gone through 3 different staff members. This is done on a daily basis. In the event that 2 of the 3 staff members are out the deposit is held until the following day to ensure it has been verified correctly prior to being deposited. Also, management has worked closely with City Attorney to ensure that city Ordinance is being properly followed in collecting and receipting utility payments and shut-offs are being done accordingly. A memo was provided by the city attorney to all city officials clarifying the policies and procedures that need to be followed along with the city Ordinance on the proper way to handle delinquent accounts. City officials have been made aware that management will follow and abide with city Ordinance as it is written so that no special treatment is being made.

Auditor's Remarks

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

Applicable Laws and Regulations

RCW 42.23.070 – Prohibited Acts

RCW 43.09.240 – Local Government Accounting

RCW 43.09.200 – Local Government Accounting – Uniform System of Accounting

City Ordinance 13.04.550 – Delinquency – Notice – Shut off as method of enforcement

BARS manual ch. 3 – Accounting Principles and Internal Control

RELATED REPORTS

Financial

Our opinion on the City's financial statements and compliance with federal grant program requirements 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>.

That report includes a finding for a significant deficiency in internal controls over the financial statement preparation process to ensure accurate report. It also includes a finding over the City's declining financial condition.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes a federal finding regarding cash management and special reporting requirements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Mabton operates under a mayor-council form of government with a five-member Council and an elected Mayor. The Council is responsible for creating policies and procedures and making financial decisions. The Mayor and the City staff are responsible for overseeing day-to-day operations.

The City provides municipal and proprietary services which include: public safety, infrastructure maintenance, cemetery facilities, library facilities, emergency response and water, sewer and solid waste utilities. The City reported operating revenues of \$3.3 million, \$6.2 million and \$4.8 million in 2015, 2016 and 2017, respectively.

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 Mabton 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	
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