



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Town of Hatton

Adams County

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

Published December 21, 2015

Report No. 1015596





Washington State Auditor's Office

December 21, 2015

Mayor and Town Council
Town of Hatton
Hatton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Town of Hatton's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Town's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

**Town of Hatton
Adams County
January 1, 2013 through December 31, 2013**

The results of our audit of the Town of Hatton are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

A disclaimer of opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted instances of noncompliance that were material to the financial statements of the Town.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued a disclaimer of opinion on the Town's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.228	CDBG - State-Administered CDBG Cluster - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Town did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Town of Hatton

Adams County

January 1, 2013 through December 31, 2013

2013-001 The Town's internal controls over financial reporting were inadequate to ensure accurate and timely federal grant reporting, resulting in a missed federal audit deadline and material noncompliance with federal grant requirements.

CFDA Number and Title:	14.228 CDBG - State-Administered CDBG Cluster - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Commerce
Pass-through Award/Contract Number:	12-65400-025
Questioned Cost Amount:	\$0

Background

U.S. Office of Management and Budget Circular A-133 requires grantees that spend \$500,000 or more each year in federal money in a year to submit a completed Schedule of Expenditures of Federal Awards (SEFA) and to have a single audit conducted and audit report issued within nine months of fiscal yearend. It is the responsibility of Town management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified control deficiencies in internal controls that we considered to be a material weakness.

Description of Condition

The Town lacked internal controls to ensure expenditures of federal awards were reported properly on its SEFA. During our accountability audit, we identified federal grant expenditures of \$590,000 in fiscal year 2013. The Town was required to obtain a federal audit of its Community Development Block Grant, CFDA No. 14.228; however, it failed to notify the State Auditor's Office that it needed an audit. The Town was required to obtain and submit a federal single audit report to the Federal Clearinghouse by September 30, 2014, which did not occur.

The Town did not know it was required to follow federal compliance requirements in receiving federal funds therefore it did not comply with all direct and material compliance requirements of the federal program.

Cause of Condition

The Town and management did not properly identify federal grant revenues in its accounting system. Management and staff lacked the knowledge to properly prepare the Schedule of Expenditures of Federal Awards and comply with federal requirements of the program. The Town did not notify the State Auditor's Office timely of the need for a single audit of its federal award.

Effect of Condition and Questioned Costs

The material weakness in internal controls over financial reporting and understanding of federal program requirements caused the Town to miss reporting federal expenditures. It also caused the Town to fail to meet its single audit reporting deadline for 2013. Noncompliance with this requirement can put future federal funding in jeopardy.

We were unable to audit the Town's federal program because it did not have any records to audit. As a result, we are disclaiming our opinion on compliance, which means we are unable to, and do not, express an opinion on the Town's compliance with requirements over its federal program. Further, we could not, and did not, evaluate the Town's internal controls over compliance with its federal program.

Recommendation

We recommend the Town establish internal controls to ensure the following:

- Direct and indirect grant revenues are properly identified in its accounting system.

- Staff is properly trained in the requirements related to reporting federal expenditures in its annual report.
- Staff is properly trained in complying with the material federal program compliance requirements.
- Financial reports and supplemental schedules, such as the Schedule of Expenditures of Federal Awards, are properly prepared and adequately reviewed for completeness and reasonableness prior to filing the annual report.
- Requests for required federal audits are communicated timely to the State Auditor's Office.

Town's Response

The Town of Hatton is currently working on making sure the new clerk/treasurer is getting the training she needs to become familiar with all requirements. She came into the office towards the end of this process and tried working with the State Auditor's Office to get them the records they needed, but was unable to find all the records needed. Currently she is working on finding and replacing the records missing or incomplete from the previous clerk.

The current clerk will continue to work with the State Auditor's Office to learn and familiarize herself with all that is required. She is making changes according to suggestions from the auditor's office as needed.

Auditor's Remarks

We appreciate the Town's commitment to resolve this finding and thank the Town for its cooperation and assistance during the audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a

material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

§____.200 Audit requirements.

(a) Audit required. Non-Federal entities that expend \$300,000(\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §____.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with §____.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

§____.300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by §____.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.

§____.320 Report submission.

- (a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Section 20 [7 CFR 3016.20], states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Office of Management and Budget Circular A133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 510 – Audit Findings, states in part:

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(5) The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**Town of Hatton
Adams County
January 1, 2013 through December 31, 2013**

2013-002 The Town's internal controls over accounting and financial statement preparation are inadequate to ensure compliance with reporting requirements.

Background

Town council, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Town to design and follow internal controls that provide reasonable assurance regarding the preparation of financial reporting.

State law requires the Town to submit an annual financial report to our Office by May 30 each year. (RCW 43.09.230) The annual financial report includes financial statements, supporting schedules and notes to the financial statements.

In addition to submission of its annual report, the Town was also required to receive an audit of its financial statements. This requirement became applicable starting with the 2013 fiscal year, as the Town expended federal awards of \$590,000. We communicated this requirement to the Town during phone calls, emails, U.S. post and in-person visits throughout 2014 and 2015.

Description of Condition

The Town did not take appropriate action to prepare or submit the required annual reports for fiscal years 2012 and 2013. We consider this deficiency in internal controls over financial statement reporting to represent a material weakness.

Cause of Condition

Town management did not establish procedures to ensure that required annual reports were prepared and submitted. Town staff did not have the technical knowledge or sufficient understanding of the financial statement preparation requirements detailed in the *Budgeting, Accounting and Reporting Standards* (BARS) manual.

Effect of Condition

We are unable to express an opinion on the Town's financial statements for fiscal year 2013, nor provide that information to the public in our Local Government Financial Reporting System. Further, the Town will not have audited financial statements for use in conducting business or applying for grants or loans. Finally, the Town did not receive a single audit on its major federal grant in time to meet its federal filing deadline of September 30, 2014.

Recommendation

We recommend the Town management become familiar with required annual reporting requirement and establish procedures and adequate oversight to comply with financial and federal reporting requirements.

Town's Response

In November, 2014, The Town of Hatton hired a new town clerk/treasurer. She had little training coming into the office and was unaware of the requirements that were not being met.

At this time, the current clerk/treasurer is continuing to seek training and education to familiarize herself with any and all requirements, both state and federal.

Auditor's Remarks

We appreciate the Town's commitment to resolve this finding and thank the Town for its cooperation and assistance during the audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

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.

RCW 43.09.230 Local government accounting- Annual reports- Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the form and methods prescribed by the state auditor, which shall be uniform for all account of the same class.

Such reports shall be prepared, certified and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

Budgeting Accounting and Reporting System (BARS) manual, Accounting Principles and General Procedures, Internal Controls, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

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

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.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Town of Hatton
Adams County
January 1, 2013 through December 31, 2013**

Mayor and Town Council
Town of Hatton
Hatton, Washington

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Town of Hatton, Adams County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated December 8, 2015. Our report disclaims an opinion on such financial statements because we were not able to obtain financial statements supporting the financial activities of the Town for the year ended December 31, 2013, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our engagement to audit the financial statements of the Town, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Findings 2013-001 and 2013-002 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the Town, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

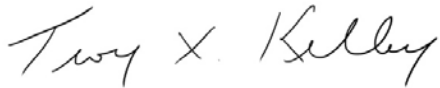
The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses as Findings 2013-001 and 2013-002. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

TOWN'S RESPONSE TO FINDINGS

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 8, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Town of Hatton
Adams County
January 1, 2013 through December 31, 2013**

Mayor and Town Council
Town of Hatton
Hatton, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We were engaged to audit the compliance of the Town of Hatton, Adams County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Town's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on conducting the audit of the types of compliance requirements referred to above, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance.

Basis for Disclaimer of Opinion on CFDA 14.228 Community Development Block Grants/State's Program

As described in Finding 2013-001 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the Town did not provide, and we were unable to obtain, supporting documentation and other sufficient appropriate audit evidence about the Town's compliance with the requirements that could have a direct and material effect on the Community Development Block Grants/State's Program, nor were we able to satisfy ourselves as to the Town's compliance with those requirements by other auditing procedures.

Disclaimer of Opinion on CFDA 14.228 Community Development Block Grants/State's Program

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance. Accordingly, we do not express an opinion on the Town of Hatton's compliance with the requirements direct and material to its Community Development Block Grants/State's Program.

Town's Response to Findings

The Town's response to the compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Town's response was not subjected to the auditing procedures applied in the engagement to audit compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In connection with our engagement to audit compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2013-001 to be a material weakness.

Town's Response to Findings

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Town's response was not subjected to the auditing procedures applied in the engagement to audit compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 8, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of Hatton Adams County January 1, 2013 through December 31, 2013

Mayor and Town Council
Town of Hatton
Hatton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the financial statements of the Town of Hatton, Adams County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor.. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

Basis for Disclaimer of Opinion on Regulatory Basis of Accounting (BARS Manual)

The Town did not provide financial statements or supporting schedules for the period ended December 31, 2013, and therefore, representations of the Town's financial activities were not available for audit.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. The statements are not included in our report.

Other Matters Regarding Disclaimer of Opinion

As the statutory auditor of all public accounts in the state of Washington we are precluded from withdrawing from the audit engagement, regardless of the matters described in the Basis for Disclaimer of Opinion paragraph.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 8, 2015

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Town of Hatton Adams County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Town of Hatton.

Finding ref number: 2013-001	Finding caption: The Town's internal controls over financial reporting were inadequate to ensure accurate and timely federal grant reporting, resulting in a missed federal audit deadline and material non-compliance with federal grant requirements.
Name, address, and telephone of auditee contact person: Barbara Pence, Clerk/Treasurer Town of Hatton 150 Bronson Street Hatton, WA 99344 (509) 488-3976	
Corrective action the auditee plans to take in response to the finding: <i>Barbara Pence, Town clerk/treasurer will continue seeking training and education. She will continue working with the State Auditor's Office to make the needed changes in the town's record keeping and reports.</i>	
Anticipated date to complete the corrective action: <i>The learning process will be an ongoing process throughout her time in the office. The process of changing the record keeping, and reports has already started and will continue as problems are found and corrected.</i>	

Finding ref number: 2013-002	Finding caption: The Town's internal controls over accounting and financial statement preparation are inadequate to ensure compliance with reporting requirements.
Name, address, and telephone of auditee contact person: Barbara Pence, Clerk/Treasurer Town of Hatton 150 Bronson Street Hatton, WA 99344 (509) 488-3976	
Corrective action the auditee plans to take in response to the finding: <i>The Town of Hatton's City Council has started working closer with the clerk, by asking more questions and taking more interest in the work of the clerk. They will be coming into the office occasionally to work with the clerk and go over paperwork with her.</i>	
Anticipated date to complete the corrective action: <i>This has already started, and will continue indefinitely.</i>	

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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