



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Colfax

Whitman County

For the period January 1, 2014 through December 31, 2015

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Office of the Washington State Auditor
Pat McCarthy

December 21, 2017

Mayor and City Council
City of Colfax
Colfax, Washington

Report on Financial Statements

Please find attached our report on the City of Colfax's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Colfax Whitman County

January 1, 2014 through December 31, 2015

2015-001 The City did not have adequate internal controls in place to ensure accurate reporting of its financial statements and schedules.

Background

The City's elected officials and appointed management are responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affected the City's ability to produce reliable financial statements.

Description of Condition

Our audit identified control deficiencies that, when taken together, represent a material weakness because they adversely affected the City's ability to produce reliable financial statements:

- The prior Finance Director did not fully understand the accounting software and how the recording of cash transactions and adjusting journal entries affected the accounting records' accuracy. As an example, the current Finance Director discovered many manually written checks had cleared the bank but were not recorded in the accounting records.
- The City could not rely on its computerized accounting records because of inaccurate or unsupported transactions and an inability to generate system reports. The current Finance Director was unable to provide support or resolve errors and inconsistencies, such as:
 - Generating reports to support the validity of journal entries in the accounting records
 - Generating reports to support the accuracy of bank reconciliation items between the bank accounts and accounting records
 - Resolving discrepancies in the funds reported in the annual report
 - Resolving discrepancies in reported beginning and ending cash balances

- The City's bank reconciliation process has not been formalized and was not performed consistently on a monthly basis.
- The *Budgeting, Accounting and Reporting System* (BARS) Manual provides guidance for financial reporting. Internal controls did not ensure that the most current guidance was used to generate the annual report.
- The City did not have adequate annual report review controls to ensure significant errors or inconsistencies were detected and resolved.

Cause of Condition

The City experienced turnover in the Finance Director and City Administrator positions. Limited staffing resources in these key positions affected the City's ability to monitor and review the accuracy of accounting records, and to research and resolve discrepancies promptly. City employees said they could not rely on reported transactions or the accounting records for both years because of transactions that were unsupported, recorded incorrectly or not recorded at all.

The accounting software either did not have the functionality or was not set up to generate the reports necessary to support the validity of each financial transaction.

Effect of Condition

2014

- A note disclosure in the annual report stated that \$1,420,348 is missing from ending cash and investments.
- A note disclosure stated that current City staff cannot attest to the validity or accuracy of the financial statements
- Beginning in 2009, the City was required to roll up managerial funds, but it did not do so for its enterprise funds in 2014.
- Beginning in 2010, the City was required to present reserved and unreserved portions of fund balance, but it reported no reserved fund balances for 2014.
- Beginning in 2011, the City was required to analyze its special revenue funds to determine if they met new reporting criteria, but it did not do so for 2014. We were unable to determine that all funds were properly reported.

2015

- City employees said they cannot attest to the validity or accuracy of the 2015 annual report.

- The Schedule of Liabilities overstated pension liabilities by \$1,998,135.
- Beginning in 2010, the City was required to present reserved and unreserved portions of fund balance, but it reported no reserved fund balances for 2015.

In addition, the City did not monitor actual expenditures against approved budget appropriations promptly. The City's records indicate that the approved expenditure budgets were exceeded by more than \$200,000 in 2014 and \$900,000 in 2015. We were unable to determine if this condition was the result of inaccurate accounting records or an actual violation of the City's budget authority.

Because the City could not provide sufficient support for financial transactions and journal entry adjustments or resolve variances between the bank activity, accounting records and financial statement amounts, we are not able to express an opinion on the financial statements, as of and for the years ending December 31, 2014 and 2015, respectively. As such, no financial statements are included with our audit report.

Recommendations

We recommend the City:

- Ensure employees responsible for recording financial transactions and preparing financial statements are adequately trained to use the City's accounting software
- Ensure its accounting software maintains records and can generate reports to support the validity of all City financial transactions
- Develop and follow internal controls that formalize its bank reconciliation process so bank activity, accounting records and financial statement amounts are accurately reconciled
- Ensure the accounting records include all financial transactions and are accurate and complete
- Ensure documentation is retained to support all financial transactions, including journal entry adjustments
- Prepare financial reports using the most current BARS Manual guidance
- Improve its annual report review controls to ensure it identifies errors and inconsistencies before filing annual reports.

City's Response

The City realized, in 2016, that its current accounting system was not reliably recording transactions accurately nor did it accurately report them. This combined with the inability to do a true bank reconciliation and balance bank accounts to fund balances prompted us to change our software system. Additionally, over the year in 2016 the city made many changes in procedures and processes to improve internal controls. During implementation of the new software, the reserve balances for the various funds have been determined and accurately recorded. Monthly reconciliation and Treasurer statements are being completed and reports are run to assure accuracy. The new software is also up to date for the current BARS accounts, and funds have been cleaned up and properly reported.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue 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.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Controls Related Matter Identified in an Audit, paragraph 7.

**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**

**City of Colfax
Whitman County
January 1, 2014 through December 31, 2015**

Mayor and City Council
City of Colfax
Colfax, 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 City of Colfax, Whitman County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 4, 2017. Our report disclaims an opinion on such financial statements because the City was not able to generate system reports from its computerized accounting records, and transactions were incorrectly recorded, not recorded in the system at all, or not supported by sufficient documentation, for the years ended December 31, 2015 and 2014, 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 City we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 Finding 2016-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the City, we performed tests of the City'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 Finding 2015-001. 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.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our engagement is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the engagement to audit 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 City's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the City'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.



Pat McCarthy

State Auditor

Olympia, WA

December 4, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Colfax Whitman County January 1, 2014 through December 31, 2015

Mayor and City Council
City of Colfax
Colfax, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying financial statements of the City of Colfax, Whitman County, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City'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 described in Note 1. 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 opinions 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 of the matters described in the Basis for Disclaimer of Opinions paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinions

The City did not provide accurate financial statements or supporting schedules for the periods ended December 31, 2015 and 2014, and therefore, representations of the City's financial

activities were not available for audit. Further, the City was not able to generate system reports from its computerized accounting records, and transactions were incorrectly recorded, not recorded in the system at all, or not supported by sufficient documentation. The City's records do not permit the application of other auditing procedures to evaluate the fair presentation of revenues and expenditures.

Disclaimer of Opinions

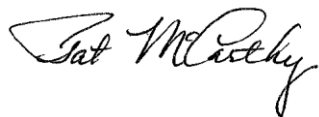
Because of the significance of the matters described in the Basis for Disclaimer of Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express opinions on the financial statements. The statements are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

Other Matters Regarding Disclaimer of Opinions

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 Opinions paragraph.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 on our consideration of the City'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 engagement to perform an audit in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

December 4, 2017

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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