



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
City of Mill Creek

Snohomish County

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

Published June 21, 2018

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

June 21, 2018

Council
City of Mill Creek
Mill Creek, 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, except as described below, 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 Mill Creek from January 1, 2016 through December 31, 2016.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

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 year ended December 31, 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Credit cards – follow-up of prior audit recommendations, policy review, procedures, and testing supporting documentation
- Public safety system software – follow-up of prior audit recommendations, inventory monitoring and user access
- Payroll – policy review, procedures and testing of wages and benefits
- Self-insurance – workers compensation and unemployment
- Selected IT policies, procedures, practices, and controls protecting financial systems, IT systems and data
- Financial condition and fiscal sustainability

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The City lacked adequate internal controls and monitoring over credit card disbursements, placing public resources at risk of loss or misappropriation.

Background

The City Council and management are responsible for establishing policies and procedures to control credit card payments. These payments must be supported by documentation for every purchase and be audited and certified in accordance with state law.

We previously reported concerns related to the City's policies and procedures governing credit card usage and lack of detailed support for transactions tested in the prior audit.

The City maintains 10 credit cards and spent \$72,196, \$122,714 and \$117,910 in 2015, 2016 and 2017, respectively. During our audit, we specifically reviewed charges for meals, employee recognition and travel-related expenses.

Description of Condition

Our audit found the City continued to have inadequate internal controls over monitoring credit card usage, including ensuring all charges are adequately supported and represent a valid business expense. Specifically, the City did not require detailed or itemized receipts, nor explanations of the charges' public purpose.

We performed testing of transactions occurring on all City cards in 2017 and identified increased instances of charges lacking detailed support, with the highest dollar volume occurring on the card assigned to the City Manager. Our initial testing found 24 purchases totaling \$2,048 that did not have itemized receipts, with \$992 of that total charged on the City Manager's credit card. During the audit, detailed and itemized support was obtained from the original vendors. Those records showed charges for alcohol and meals where the public purpose could not be determined.

Because the card assigned to the City Manager had the highest dollar volume lacking detailed support, we expanded our testing of this card and reviewed 52 additional purchases occurring between 2015 and 2017.

From all transactions tested, we found:

Credit Card Testing Results	Total
Transactions originally identified without itemized receipt	\$ 3,774
Purchases where itemized receipt was obtained after audit request	\$ 3,013
Remaining purchases unable to validate	\$ 761

Through our review of the additional documentation we found the following:

Purchases with unclear public purpose	City Manager's card	Other cards
Alcoholic beverages	\$ 269	\$ 0
Meals	\$ 955	\$ 86
Employee recognition items	\$ 398	\$ 789
Total purchases with unclear public purpose	\$1,622	\$ 875

Additionally, the City's travel and expense reimbursement policy (Ordinance 91-252) allows for meals to be purchased with a credit card, however the policy does not provide clear instructions for purchase limitations or required documentation.

Finally, the City could not provide a policy allowing for the purchase of employee appreciation or recognition items.

Cause of Condition

Through a lack of monitoring and enforcement, the City did not ensure employees and officials used credit cards for valid public purposes.

Effect of Condition

As a result of not effectively monitoring credit card charges, the City cannot demonstrate all expenditures were for a valid public purpose.

Recommendations

We recommend the City establish internal controls to ensure all transactions are properly supported with original, detailed supporting documentation that clearly identifies a public purpose.

We further recommend the City ensure that its policies and procedures require itemized receipts be provided for all expenses paid with public funds. In addition, the City should clarify and/or establish policies and procedures for meals with

meetings and recognition activities, including allowable purchases and applicable spending limits, to ensure the City is not at risk of gifting public funds.

City's Response

On March 16, 2017, the State Auditor's Office (SAO) issued a management letter which set forth recommendations resulting from its accountability audit for the period January 1, 2015 through December 31, 2015. Specifically, the SAO recommended:

- *Updating and/or developing formal written policies that govern the use of City funds to purchase items for employee appreciation and recognition, meals with meetings and volunteer compensation.*
- *Performing adequate monitoring of credit card transactions to ensure that employees maintain all receipts and support to verify the validity and business purpose of each transaction.*

The policy in effect during the 2015 and 2016 audits was adopted via Ordinance 91-252. The City Attorney has opined that the policy:

- *Explicitly provided authority to reimburse employees and officials for meals with business meetings.*
- *Provided authority to reimburse employees and officials for meals with business meetings without detailed receipts.*

The City Attorney also opined that RCW 42.24.115(2) permits employees or officials to reimburse the City for disallowed expenses on a municipal corporation issued charge card, in lieu of adopting a separate policy. Disallowed expenses have been reimbursed by City employees pursuant to RCW 42.24.115(2).

After issuance of the above referenced management letter, the City took steps to respond to the SAO's recommendations:

- *The City updated its internal controls whereby the Finance Director was tasked with reviewing and approving the City Manager's credit card receipts. Likewise, the City Manager was tasked with reviewing and approving the Finance Director's receipts.*
- *The City also conducted a comprehensive review and rewrite of its policy governing all business related expenses. The City's new business expense policy implemented a per diem allowance thereby eliminating the need for detailed receipts, except in specially noted circumstances. This policy was adopted by the Mill Creek City Council on March 27, 2018.*

The City acknowledges the validity of the SAO's recommendations and proceeded in good faith, as described above, to enact the 2015 audit recommendations.

The City truly appreciates the SAO recommendations and believes the recommendations have helped the City significantly improve its internal controls. The City appreciates the opportunity to provide this response and looks forward to continuing to receive recommendations from the SAO that will assist the City in achieving excellence in its financial management practices.

Auditor's Remarks

We appreciate the City's assistance through the audit process.

The basis of our finding in this audit was not reimbursements, but charges to City credit cards. When the public's money is spent directly through the use of city credit cards, internal controls are essential to prohibit or detect charges that aren't for a public purpose.

The state law (RCW 42.24.115) directing employees to repay unallowable charges exists as a remedy for recoupment only. However, strong policies and procedures would prevent unallowable expenditures from occurring, eliminating the need for repayment.

We will review the City's updated policy language and the status of this finding in our next regularly scheduled audit.

We reaffirm our finding.

Applicable Laws and Regulations

City Council Policy 96-002 for Procurement of Goods and Services

Ordinance No. 91-252 – Regulations for travel and expense reimbursements

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

RCW 42.24.115 – Municipal corporations and political subdivisions – Charge cards for officers' and employees' travel expenses.

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

RCW 43.09.2855 – Local governments – Use of credit cards.

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 Mill Creek has a population of approximately 19,900 citizens and encompasses 4.68 square-miles in Snohomish County, Washington. The City provides an array of services including police protection, recreational services, street maintenance, parks maintenance, planning and zoning, storm water and general government services. The City contracts with Snohomish County Fire Protection District No. 7 for its fire and emergency services. The Alderwood and Silver Lake Water districts provide the City's water and wastewater services.

An elected, seven-member Council governs the City. Council Members select one Member to serve as Mayor. The Council appoints a City Manager to oversee the City's daily operations as well as its 68 full-time employees. For fiscal year 2016, the City had annual operating expenditures of \$13,680,950.

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 Mill Creek 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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov