



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

# **Accountability Audit Report**

## **Town of Cusick**

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

**Published August 26, 2019**

**Report No. 1024432**





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

August 26, 2019

Mayor and Town Council  
Town of Cusick  
Cusick, 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 Town 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 Town'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,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Information about the Town .....	13
About the State Auditor's Office.....	14

## AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In the areas we examined, Town operations did not comply with applicable state laws, regulations, or its own policies. Additionally, the Town did not provide adequate controls over safeguarding of public resources for its revenues and expenditures.

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

These recommendations are included with our report as findings.

As referenced above, we also noted certain matters that we communicated to Town management and Mayor and Town Council in a letter dated August 19, 2019, related to financial condition, accuracy of financial information, and budget hearings and approvals. We appreciate the Town's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of the Town of Cusick 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 Town'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:

- Accounting/financial reporting requirements
- Open public meetings – documentation of minutes, executive sessions and special meetings
- Financial condition and fiscal sustainability

- Accounts payable – general disbursements, credit cards, travel expenditures, and employee reimbursements
- Cash receipting – timeliness and completeness of deposits
- Budget compliance and follow up on citizen concerns
- Compliance with water service contracts and follow up on citizen concerns

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2017-001 The Town's internal controls over disbursements were not adequate to safeguard public resources.**

#### ***Background***

The Town's expenditures for 2017, 2016, and 2015 were \$107,100, \$99,366, and \$90,536, respectively. Town management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and policies and safeguarding of public resources. Town management is also responsible for the integrity and retention of the original vouchers, receipts, and other documents necessary to prove the validity of every transaction relating to the receipt, use and disposition of public funds and property.

#### ***Description of Condition***

During our audit of the Town, we identified internal control deficiencies over the disbursement process. As a result, we expanded testing to include transactions from fiscal year 2018. Specifically, the Town:

- Did not adequately segregate duties over key financial operations, including payroll and accounts payable activities.
- Lacked an effective review to ensure payroll and accounts payable disbursements are adequately supported, approved, and for a valid business purpose.

#### ***Cause of Condition***

Town management had difficulty designing and implementing controls over key financial operations because of staff turnover during the audit period. The Town could not find records from storage for the years under audit.

#### ***Effect of Condition***

The Town did not retain all key financial documents such as bank statements, employee payroll records, and support for disbursements including vendor payments and employee reimbursements for 2017 and 2018 activity. As a result, the Town cannot demonstrate the validity of this financial activity.

We tested 26 transactions totaling \$18,413 and found the following:

- Receipts or invoices were missing for 18 payments for a total of \$13,597.
- Evidence of review by the Town Council was missing from 11 payments, totaling \$4,303.

- Documentation to demonstrate payments were for a valid public purpose was missing for 14 payments, totaling \$7,520. Two of these transactions were made with the Town's debit card and were not allowable. One transaction was a personal purchase made by an employee that was subsequently repaid to the Town. We also identified an ATM cash withdrawal that was made by an employee who purchased equipment and supplies for the Town but did not provide receipts to support the use of the cash withdrawn. These transactions do not comply with state laws regarding use of credit cards for local government.

### ***Recommendations***

We recommend the Town improve internal controls over disbursements to safeguard public resources. Specifically, the Town should:

- Establish effective internal controls over financial operations, including segregating duties for payroll, vendor, and credit-card payments or implementing compensating controls
- Adopt written policies for disbursements that address topics such as lost receipts and employee travel and reimbursements
- Adequately monitor payments to ensure they serve a valid purpose
- Keep supporting documentation and records for the required records retention period
- Ensure all disbursements have evidence of review by the Town Council
- Safeguard Town assets by eliminating debit card cash withdrawals and reviewing transactions in a timely manner to ensure they serve a valid public purpose
- Amend the Town Credit Card Policy to comply with RCW 43.09.2855 regarding use of credit cards by local government

### ***Town's Response***

1. *The Clerk/Treasurer no longer has a credit card and transactions/requests are run through the Mayor.*
2. *We have contacted Marianne Nichols of Pend Oreille County Auditor's Office and are working on an MOU to have payroll run through her office for better controls rather than in-house.*
3. *We have appointed a councilperson responsible for financial oversight and review in addition to the records review by full council at regular council meetings.*

4. *We are working with our new Town attorney to update all our Town policies and put them through legal review including but not limited to credit card use.*
5. *We now have a double backup system for our computer software program: one to hard drive on site and a second nightly backup to the cloud off-site.*

### ***Auditor's Remarks***

We appreciate the Town's commitment to resolving the issues noted and will follow up during the next audit.

### ***Applicable Laws and Regulations***

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

RCW 43.09.200 – Local government accounting – Uniform system of accounting

RCW 43.09.2855 – Local Governments – Use of credit cards

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

RCW 40.14.070 – Destruction, disposition, donation of local government records—Preservation for historical interest—Local records committee, duties—Record retention schedules—Sealed records states

*Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30*

*Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Internal Control – Original Supporting Documentation Section 3.1.4*

*Budgeting Accounting and Reporting System (BARS) manual – Accounting, Expenditures, Purchase Cards, Section 3.8.4*

*Budgeting Accounting and Reporting System (BARS) manual – Accounting, Expenditures, Voucher Certification and Approval (1), Section 3.8.5*



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2017-002 The Town did not have adequate controls over cash receipting, putting public resources at risk of loss or misappropriation.**

#### *Background*

The Town of Cusick received revenues of \$524,044, \$370,157 and \$370,268 for 2017, 2016 and 2015, respectively. The Town's primary sources of revenue are property taxes and utility service billings. The Mayor and Town Council appoint a Clerk-Treasurer to process and oversee daily accounting and financial operations. Town management is also responsible for ensuring it has contracts and agreements in place to safeguard its resources.

The Town provides water and sewer utility service for its residents and those outside the service area. It also provides service to the Kalispel Tribe of Indians (Tribe) for multiple locations, including its new casino, for which construction started in the summer of 2018.

#### *Description of Condition*

##### *Cash receipting*

The Town receipts payments for utility bills and boat launch fees. We reviewed the Town's cash receipting processes and identified the following:

- The Town lacked a general cash receipting policy that incorporates key elements, such as the frequency of deposits.
- Receipts were not deposited daily in accordance with state law. The Town does not have a waiver allowing it to make less frequent deposits.
- The Town did not adequately safeguard deposits as some funds receipted were used to replenish petty cash in error.
- The Town did not have adequate internal controls to ensure it receives all revenues it is due. The Town is not reconciling cash receipts to bank deposits, and there is a lack of segregation of duties between verifying the amount of cash receipted and the final amount deposited.
- The Town did not have procedures to ensure bank statements are reconciled in a timely manner. The Town has not reconciled its general ledger to the bank statements since 2014, except one monthly reconciliation in December 2017.

### *Contracts and agreements*

The Town's most recent contract with the Tribe for water services expired in 2016. The Town has allowed the Tribe to have unmetered water service to the new casino without a written contract or agreement in place to ensure approved water rates were being charged. The Town had not completed a monthly billing for the unmetered connection from October 2018 until April 2019. The Town has been working on determining an estimate for the water usage and then plans to bill the Tribe the base water rate and the estimated amount of usage for the period of the unmetered connection.

### ***Cause of Condition***

#### *Cash receipting*

Town management had difficulty designing and implementing controls over cash receipting because of staff turnover during the audit period. Also, the Town has limited staff and resources available to segregate duties and perform adequate monitoring procedures. Further, the Town did not prioritize implementing the monitoring and segregation of duties necessary to safeguard cash receipts.

### *Contracts and agreements*

The current Mayor and Clerk-Treasurer were unaware that Town's agreement with the Tribe had expired. They have been working on new utility rates for the Tribe before they enter into a new agreement. The Town did not install a meter for the water connection to the new casino because the Town did not have permission to install it on tribal land at the time of connection. The Town also intends to add a master meter to bill the Tribe for all their water usage in one bill, and it determined installing another separate meter would not be cost effective.

### ***Effect of Condition***

#### *Cash receipting*

Our audit found that for the \$1,799 in transactions tested, deposits were not completed within 24 hours as required by state law and payment methods were not identified, and it could not determine if payments were posted accurately to the general ledger. In addition, the customer payment cards were not pre-numbered, and the pre-numbered Treasurer Receipts had significant gaps in sequence.

Without adequate internal controls, public funds are at risk of misappropriation, misuse, or loss that would not be detected by management promptly, if at all.

### *Contracts and agreements*

Our audit found that the Tribe had a total outstanding balance of \$4,665 with the Town for bulk and unmetered water service. The Town had not installed a meter on the Tribe connection at the time of the audit and cannot be sure of the proper amount of usage or if the Town is receiving all the revenue it is due.

### ***Recommendation***

#### *Cash receipting*

We recommend that the Town improve its internal controls over cash receipting by:

- Establishing and following policies and procedures over financial operations
- Using pre-numbered receipts to track if the Town is receiving all the funds it is due
- Establishing and following general cash receipting policies and procedures to safeguard public funds
- Documenting methods of payment for local funds received retaining documentation to support revenues
- Ensuring funds received are properly receipted and recorded in the general ledger
- Retaining adequate supporting documentation of a monthly reconciliation to its bank accounts to ensure financial activity is accurately recorded in the general ledger
- Increasing the monitoring of financial operations by the Town Council to include review of bank reconciliations by someone other than the preparer

### *Contracts and agreements*

We recommend the Town improve controls over its contracts and agreements by:

- Establishing current written contracts or agreements with the Kalispel Tribe of Indians for water services in its established locations
- Establish a written contract or agreement with the Tribe for the temporary unmetered water connection to prevent gifting of public funds

### ***Town's Response***

*1. The Town has implemented a chain of custody regarding revenue received. The locks have been changed as have all codes to enter the building. The Mayor is in*

*sole possession of payment box key for utility payments and boat launch payments. The boxes are opened with a minimum of two persons, the mayor and a staff member or councilmember. The cash is counted by both parties – documented, placed in a sealed envelope and signed by both parties – it is deposited that day or the next morning and receipt attached to the copy/photo made of the receipt sent in sealed envelope to the bank. All customers paying cash are receipted and given a copy of that receipt for their records and a copy kept by the town and added to the deposit to the bank. For the first time ever, customer files are being created and all payments, cash receipt and canceled/scanned into system check/money order are stored in that file, as the town now scans checks/money orders into the system upon receipt the same-day as received.*

*2. As soon as data loss restoration is completed full bank reconciliations will be done and up to date and performed on a monthly basis.*

*3. We are in the process of updating all our water rates and overages tier charges per our Town Engineer’s recommendation. We have also created new rates and tiers for commercial, purveyor and hydrant use. The estimated date of adoption per our Town attorney is the August 2019 council meeting.*

### ***Auditor’s Remarks***

We appreciate the Town’s commitment to resolving the issues noted and will follow up during the next audit.

### ***Applicable Laws and Regulations***

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

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, Revenues, Cash Receipting, Section 3.6.1*

*Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Internal Control – Original Supporting Documentation Section 3.1.4*

*Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Controls, Internal Control, Section 3.1.3*

RCW 39.34.040, Methods of filing agreements—Status of interstate agreements—Real party in interest—Actions.

## INFORMATION ABOUT THE TOWN

The Town of Cusick was incorporated in 1927 and serves approximately 205 residents in Pend Oreille County. It provides an array of services including water, sewer, parks and recreation and general administrative services. The Town contracts with Pend Oreille County for law enforcement services.

An elected, five-member Council with a separately elected Mayor governs the Town. The Council and Mayor conduct an interview committee to hire a Clerk-Treasurer to oversee the Town's daily operations and employees. For fiscal years 2017, 2016, and 2015 the Town operated on annual budgets of approximately \$1,000,000, \$870,000, and \$805,000, respectively.

<b>Contact information related to this report</b>	
Address:	Town of Cusick P.O. Box 263 Cusick, WA 99119
Contact:	Christine Evers, Mayor
Telephone:	509-671-9008
Website:	<a href="https://www.townofcusick.com/">https://www.townofcusick.com/</a>

*Information current as of report publish date.*

### **Audit history**

You can find current and past audit reports for the Town of Cusick 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>