



Office of the Washington State Auditor  
Pat McCarthy

# Accountability Audit Report

## City of Wapato

For the period January 1, 2019, through December 31, 2020

*Published November 10, 2021*

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

November 10, 2021

Mayor and City Council  
City of Wapato  
Wapato, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is 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 value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## AUDIT RESULTS

### Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, City operations did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, in most of the areas we examined, the City did not have adequate controls over safeguarding of public resources.

We identified areas where the City could make improvements. These recommendations are included with our report as findings. We recommend the City establish internal controls to ensure compliance with state law and safeguarding public funds from loss or misappropriation in the following areas:

- Conflict of interest, code of ethics and nepotism
- Building permits
- Procurement
- Billings and cash receipting
- Payroll
- Disbursements and credit cards
- Cost allocation and use of restricted resources, interfund loans and spending within legally appropriated budgets

We also noted certain matters related to the Open Public Meetings Act, procurement of goods and services and information technology (IT) security that we communicated to City management and the Mayor and City Council in a letter and a separate confidential communication dated November 9, 2021. Because public distribution of certain tests performed and the related results could increase risk to the City's IT security, distribution of that information has been limited to management of the City and is kept confidential under RCW 42.56.420. We appreciate the City's commitment to resolving those matters.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of the City of Wapato for the period beginning January 1, 2019, through December 31, 2020.

In 2019 and 2020, the City of Wapato spent about \$6.2 million annually on operations. A seven-member Council and Mayor govern the City. State law regarding the mayor-council plan of

government (RCW 35A.12.100) designates the Mayor as the chief executive and administrator of the City, in charge of all departments and employees. The City has had significant turnover with management during the past several years and nearly all City Hall staff were new to their positions in 2019. In September 2018 the Mayor in office appointed a City Administrator to oversee daily operations, including serving as the City's personnel officer. The City Administrator was responsible for the hiring and discharging of all City employees, subject to the Mayor's approval, except those employees and officers that state law requires the Mayor to appoint. After the City Administrator resigned in July 2019, the Council eliminated this position. The Mayor fired the Clerk-Treasurer in August 2019, but the Council returned that person to their position in December 2019. The Mayor's term had ended a month before, in November 2019, after the election was certified.

City management is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance the City is safeguarding public resources. Because of the continuing staff turnover, the City continues to have several areas of non-compliance and internal control weaknesses resulting in repeat audit findings.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition
- Use of restricted resources
- Cost allocation plan – equitable distribution of indirect costs
- Budget compliance and interfund loans
- Conflict of interest and code of ethics laws
- Payroll – nepotism, hiring, gross wages, overtime, leave balances and accruals, benefit deductions and leave cash outs
- Accounts payable – general disbursements, credit cards and electronic fund transfers
- Accounts receivable – billings, adjustments and collections for utilities
- Cash receipting – timeliness and completeness of deposits, voids and adjustments at City Hall and swimming pool
- Procurement – public works, purchases and professional services

- Open public meetings – documentation of minutes, executive sessions and special meetings
- Building and planning – building and permit calculations, contracts and code enforcement
- Selected IT security policies, procedures, practices, and controls protecting financial systems, IT systems and data, user access, IT related policies
- General ledger software conversion

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Wapato January 1, 2019 through December 31, 2020

#### **2020-001 In 2019 City management continued to disregard both state law and its own policies when performing essential government functions.**

##### *Description of Condition*

City management did not follow state laws and City policies when performing essential functions. We identified the following concerns:

##### *Lack of compliance and special privileges over City hall construction and building permits*

The City paid a construction company for City Hall construction services and also hired the company's owner to perform building code inspections. The City did not:

- Properly procure the construction project in accordance with state law
- Register the construction project with the Department of Labor and Industries and pay prevailing wages
- Enter into valid written contracts for the construction and building inspection services
- Ensure that all payments for services were supported by valid invoices and time worked
- Restrict the building inspector (owner of the construction company) from issuing building permits and performing inspection for his own construction company
- Verify that the building inspector calculated the permit amounts correctly

##### *Vehicle stipend*

The City Administrator's employment contract authorized a \$500 car allowance each month or the use of a City vehicle for official business. The car allowance required the City Administer to maintain insurance on the vehicle and be responsible for repairs, maintenance, and fuel. In 2018, the City provided the City Administrator with a vehicle; however, the City also paid the City Administrator car allowances and a mileage reimbursement, which is unallowable.

### *Code of ethics*

State law prohibits municipal officers from using their positions to secure special privileges or exemptions for themselves or others. The City employed two Councilmembers between May and July 2019, which violates state law for municipal officers.

This issue was reported as a finding in the previous audit.

### *Nepotism*

Under the Mayor's authority, the City hired the Mayor's daughter in February 2019 until the Council eliminated her position in August 2019.

This violates the City of Wapato's Personnel Policy, section 3.5 Employment of Relatives (nepotism), which states in part: "The immediate family of current city employees and city council members will not be employed by the City where: (1) One of the parties would have authority (or practical power) to supervise, appoint, remove, or discipline the other."

This issue was reported as a finding in the previous audit.

### *Cause of Condition*

City officials did not oversee operations effectively in 2019 to resolve previous audit recommendations or establish an environment for complying with state law or City policies.

### *Effect of Condition*

In 2019, the City continued to disregard both state law and its own policies when performing essential government functions and did not have adequate processes and oversight over the City activities to safeguard public funds and prevent conflicts of interest.

Specifically, the City paid for construction and building permit services without complying with state laws or restricting contractors from receiving special privileges, as indicated below:

Description	Effect
<i>Non-compliance and lack of documentation</i>	
Violation of state procurement and prevailing wage requirements and no written contract for services	\$91,958
No written contract with the construction company's owner for 4 months of building inspection services	\$20,000
Missing construction invoices	\$4,402
Missing building inspection service invoices	\$4,000

\*



City Hall building permit application was prepared, but under-valued, and never issued or paid	\$790
<i>Conflict of interest (special privileges)</i>	
Number of building permits issued by building inspector for his own construction company without independent review	2
One building permit for building inspector's construction company is estimated to be under-valued	\$730

*\*Building permit revenue recorded for the same 4 month timeframe was only \$3,100*

Also, the City violated state law and its own contracts and policies for the following payments:

<b>Description of violation</b>	<b>Amount</b>
City Administrator's unallowable car allowance	\$3,500
City Administrator's unallowable mileage reimbursement	\$455
Violation of Code of Ethics - payroll paid to Councilmembers	\$5,748
Violation of nepotism policy for Mayor's daughter	\$9,443

### ***Recommendation***

We strongly recommend City officers and management:

- Comply with the personnel policy manual by not allowing immediate family members to have the authority to supervise, appoint, remove, or discipline another family member
- Pay stipends according to the contract
- Establish controls over procurement procedures, including procuring vendors in accordance with state laws, establishing formal contracts for construction projects and service agreements, ensuring all services are performed in accordance with agreement terms, and paying for services only after receiving invoices and support showing contractors performed the services.
- Monitor building permits to verify all permits are issued and calculated properly and funds are collected and deposited
- Comply with state law regarding special privileges

### ***City's Response***

*The City previously addressed the 2019 actions and findings and has implemented appropriate controls to avoid similar actions (many of which were knowing or intentional unlawful acts). None of the individuals involved with the conditions or actions referenced in this finding are employed by the City, and the Council has been re-seated.*

*The City has hired an employee to provide building services, which does not operate a separate construction company.*

*The City has been following its existing personnel policies, purchasing policies, and state mandated codes of ethics. The Council receives annual open government training, which includes reminders related to codes of ethics and conflicts of interest. Having said that, the City recognizes that the personnel policies need updates, and is in the process of drafting new policies to be approved by council in the near future.*

*As evidenced by action taken by the State Attorney General Office, the prior administration refused to abide by the laws and regulations that support and guide cities and government. The individuals responsible for those actions are no longer employed by the City or involved with the City Council. The present administration has and will continue to follow state laws and City policies to get the City back on track to be successful and not repeat the errors of the past.*

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

We appreciate the City's commitment in resolving these issues.

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

RCW 35A.12.100 – Duties and authority of the mayor – Veto – Tie-breaking vote

RCW 35.23.352 – Public works – Contracts – Bids – Small works roster – Purchasing requirements, recycled or reused materials or products

RCW 39.12.020 – Prevailing rate to be paid on public works and under public building service maintenance contracts – Posting of statement of intent – Exception.

RCW 42.23.030 – Interest in contracts prohibited

RCW 42.23.070 – Prohibited Acts

RCW 39.04.260 – Private construction performed pursuant to contract for rental, lease, or purchase by state – Must comply with prevailing wage law.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Wapato January 1, 2019 through December 31, 2020

#### **2020-002    The City continues to lack adequate oversight and processes to ensure accurate billing, collection and deposit of all amounts owed.**

##### *Description of Condition*

The City's design and application of internal control processes were insufficient over all billing and revenue streams tested. These deficiencies do not allow the City to ensure customers were billed properly and that all money was collected, accounted for and deposited intact. Specifically, we identified the following control deficiencies:

##### *Utility billing*

- The City did not set up commercial accounts correctly, and as a result, applied the wrong excess water rates into the system.
- The City did not verify that all account meters were read each month or that account billings were calculated correctly.
- Several City Hall employees had the ability to adjust utility accounts without adequate monitoring to verify adjustments were for legitimate purposes or supported properly.
- City code allows utility discounts for low-income seniors or disabled persons and requires these individuals to certify annually. The City does not verify that customers qualify for these discounts on an annual basis.

Similar issues were reported as a finding in the previous two audits.

##### *Billing – City Hall*

The City receives payments from a local business through a Supporting Investments in Economic Diversification (SIED) loan. During 2019, the City did not have a process for ensuring it collected loan payments. This issue was reported as a finding in the last audit.

### *Cash receipts – City Hall*

- Bank and accounting records were not reconciled promptly. Additionally, City Hall did not perform a timely or independent review of these reconciliations to verify that all funds collected were deposited intact within 24 hours.
- Through December 2019, the person responsible for reconciling daily cash receipts was also responsible for bank deposits and reconciling the monthly bank statements. Also, all cashiers had the ability to adjust receipts without any independent review. Adequate segregation of duties is necessary to reduce the risk of misappropriation.
- The City did not monitor business and occupation (B&O) tax payments to ensure it collected, receipted, and accurately recorded all money owed in the accounting system. The City experienced a misappropriation of this revenue source in a prior year.
- The City lacked a process for verifying that it collected all sales revenue for items like dog licenses and facility rentals in 2019 and 2020 and cemetery sales in 2019. The City also lacked a method for comparing the number of items sold to the actual revenue collected to ensure it collected and deposited all funds. The City experienced a misappropriation of this revenue source in a prior year.
- City code requires the City to bill businesses annually for licenses before February 1 and payments are due by March 1. The City lacked a process for making sure it billed and collected all business license payments.

These issues were reported as a finding in the previous two audits and a special investigation report dated February 21, 2019.

### *Cash receipts - swimming pool*

The City did not keep receipting documentation, reconcile receipts to the bank-validated deposit slip, or perform an independent review of cash receipting activity at the swimming pool. Also, the City did not deposit pool revenues promptly.

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

The City experienced significant turnover in staff responsible for billing and cash receipting. Staff did not have the necessary experience or training for understanding the proper controls over segregation of duties and effective oversight of billing and cash handling procedures.

## Effect of Condition

Inadequate internal controls over the City's activities and lack of proper oversight increase the risk management could not quickly detect, if at all, a loss or misappropriation of public funds. Specifically we found the following errors:

Billing error	# of accounts		Amount	
	2019	2020	2019	2020
<i>Commercial utility accounts errors</i>				
Overbilled	2	4	\$50,937	\$9,091
Under billed	3	4	\$6,453	\$5,656
<i>Utility billing adjustment concerns</i>				
Billing adjustments without independent review	139	215	\$3,799	\$14,647
<i>Utility discount documentation for 84 recipients</i>				
Recipients without eligibility documentation	-	77	-	\$4,788
<i>City Hall - SIED loan</i>				
City did not bill or receive payment	1	-	\$20,632	-

\* The prior Mayor and one Councilmember received this discount without proof of eligibility

\*\* The City began billing monthly for this loan in March 2020

In addition, the City did not have meter readings for its swimming pool fill up in June 2019, and the account was incorrectly set up in the system. Therefore, we cannot determine if the City properly billed the pool.

Cash receipting issues	# of occasions		Amount	
	2019	2020	2019	2020
Deposits were not deposited daily (one to five days late)	5	9	\$26,900	\$105,313
Receipts did not match deposit	9	0	\$18,124	\$0
Employees adjusted receipts without an independent review	11	42	\$106,641	\$6,864

\* Differences balanced out in the days following deposit; however, this is an indication that the City is not receipting money when collected and does not always deposit everything that is receipted the same day.

We also found:

- The City had not fully reconciled bank statements for 2018 and 2019 until September 2020.
- Actual revenue did not agree with expected revenue for community center and park rentals. Differences ranged up to \$4,170 more than expected, because the City did not keep applications for at least 24 rentals on its 2019 calendar. As a result, we cannot determine how many rental agreements were in place to verify that the City accounted for and collected all money it was owed.
- The City cannot verify that it collected all annual business license revenue, as it only collected \$6,435 in 2020, while it collected \$13,426 in 2019.

#### *Cash receipts - swimming pool*

We cannot verify the City pool collected and deposited all money, as it did not keep receipting documentation for three days, reconciliation documents for one day, or bank-validated deposit slips for four days. Also, the City did not imprint its name or include payer identification on receipts for 16 days totaling \$2,469, and the City's receipt numbers were either missing or not in numerical order. The City did not perform an independent review of these receipts.

In addition, two receipts did not agree with the validated bank deposit and one receipt was noted as "stolen," and returned the next day. This loss of public funds was not reported to our office, as state law requires.

### ***Recommendation***

We recommend the City strengthen internal controls over billing and cash receipting to ensure public funds are adequately safeguarded from loss or misappropriation. Specifically, we recommend the City:

- Provide the necessary resources and training to staff responsible for billing and cash receipting to ensure revenues are safeguarded.
- Establish a process for ensuring utilities are billed accurately and accounts receiving the low-income senior or disabled person discount qualify for it.
- Perform an independent review of all adjustments to cash receipts and utility accounts to verify all transactions are for a valid purpose, supported, and calculated correctly.
- Continue improving its process for promptly billing and collecting on SIED loans.

- Establish and follow a policy outlining guidelines for cash handling, segregation of duties, and independent reconciliations of deposits and bank statements. This should include an independent review of daily cash activity and depositing receipts within 24 hours.
- Establish controls over B&O tax revenues for verifying that all funds collected are deposited.
- Establish controls over sales and service revenue by appropriately tracking activity and reconciling actual revenue to the expected revenue. The City should also perform an independent review of this activity.

### ***City's Response***

*See response to Finding 2019-001 and 002. As previously addressed, the administration (prior to the end of 2019) and city hall staff were either unable or incapable of balancing the general ledger, and were unqualified to undertake the duties they were given. They were likely not aware of deposit requirements.*

*The conditions referenced above have been cured, or cures are in-process. The City is permission based and there is a double audit system in place. Cashiers must balance to the system on a nightly basis and the new financial system cannot be forced balanced. The daily deposit are occurring as required, and are reconciled by the bank, another supervisor and the Clerk Treasurer. Adjustments to the system are only authorized by the employee and the Clerk Treasurer. The City has employed qualified administrative staff and is confident that their continued accuracy and hard work will continue to move the City forward. The Mayor, Mayor Pro Tem and Council are also very diligent and want the City to improve its standing within the City and with its residences. The City Clerk Treasurer has balanced to the General Ledger to date, reconciled all accounts and provided monthly reports. SIED has been billed and is up to date as well as the B & O taxes, State Remits and all payroll errors. The City has an independent audit and uses all the resources available to them.*

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

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of establishing effective controls over cash receipting and billing procedures that includes adequate monitoring of all sources of revenue. We will follow up on the status of the finding during our next audit.

### *Applicable Laws and Regulations*

RCW 43.09.200 – Local government accounting – Uniform system of accounting

RCW 43.09.210 – Local government accounting – Separate accounts for each fund

RCW 43.09.240 – Local government accounting – Public officers and employees –  
Duty to account and report – Removal from office – Deposit of collections

RCW 43.09.240 – Loss of public funds – Illegal activity – Report to state auditor's  
office

*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 Controls, Revenues, Cash Receipting, Sections 3.6.1



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Wapato January 1, 2019 through December 31, 2020

#### **2020-003    The City continues to lack adequate oversight and processes to ensure employees are paid properly for time worked.**

##### *Description of Condition*

The City lacked adequate procedures over payroll activity for safeguarding public resources. Specifically, the City did not:

- Ensure that holiday pay was accurately recorded in the payroll system after converting to the new accounting software in July 2019
- Implement necessary payroll processing or monitoring procedures to ensure staff calculated payroll using correct pay rates and recorded leave accruals properly
- Ensure both management and staff understood and complied with state laws, City policies and the collective bargaining agreement (CBA)
- Ensure it collected and retained timesheets to support payroll, or related personnel documents to support the full- or part-time status and pay rates for employees

This issue was reported as a finding in the prior audit.

##### *Cause of Condition*

The City experienced significant turnover during 2019 and 2020 while also converting to a new accounting software system. In working through these changes, management and the Council did not devote sufficient attention to the payroll process to address prior audit recommendations, adequately train staff or monitor activity.

##### *Effect of Condition*

Inadequate internal controls over payroll increase the risk management could not detect quickly, if at all, a loss or misappropriation of public funds. We identified the following concerns:

*Overpayments:*

Type of overpayment	Overpayment	
Holiday pay	\$17,049	*
Sick leave	\$858	
Compensatory time	\$153	
Vacation payout	\$4,135	
Overtime	\$708	
Unsupported payroll salary/rate	\$1,186	
Unworked hours to attend pool opening	\$2,430	
<b>Total overpayments</b>	<b>\$26,519</b>	

\* The City recovered \$4,875 of this overpayment

*Benefits:*

Description	Effect	
Two employees did not receive medical benefits	4 to 5 months	*
Medical premiums were inappropriately deducted from one employee's payroll	\$11,477 of unallowable deductions	

\*The City reimbursed the employee in March 2020

*Leave*

Description	Hours	
Use of unearned leave	102.27	*
Use of unauthorized shared leave	7.5	

\* 42 of these hours were recorded by the payroll clerk for herself

*Unallowable pay stipends:*

The City paid stipends to union employees that were not included in its policy or CBA, such as out-of-class pay for City Hall employees, supervisor pay and bilingual pay. Because the City's policy and CBA do not authorize these stipends, the City does not have written criteria for how to receive the extra pay or documentation supporting whether the employees were entitled to it. Specifically, the City paid the following unallowable stipends:

Unallowable stipend	Amount	
Out-of-class pay	\$3,889	*
Supervisor pay	\$8,330	
Bilingual pay	\$7,868	

\*\$800 was paid retro-actively and \$300 was a duplicate payment

### *Spending freeze:*

The Council approved a resolution for a spending freeze, effective August 8, 2019, and eliminated temporary, part-time or seasonal employees, effective August 16, 2019. The City continued to pay a temporary employee and part-time employee through August 31, 2019, totaling \$1,569.

### ***Recommendation***

We strongly recommend City officers and management:

- Dedicate the necessary resources to train staff responsible for processing payroll on the payroll policies and proper recording of transactions
- Pay employees overtime and stipend pay based on the terms of its CBA and personnel policy
- Keep sufficient documentation supporting all payroll transactions, including authorized pay rates, timesheets and approval for time worked, and perform an independent review to verify all payroll transactions are properly calculated

### ***City's Response***

*The City paid a stipends according to a past practice and has acquired a documented MOU with the Union in 2021. The payments to the temporary employee in 2019 were directed by the former Mayor in violation of the policy, and were not approved by Council. The City referred the matter to law enforcement and the state Attorney General as it was deemed a fraud.*

*The current City staff now have the qualifications and ability to correct the deficiencies that have been overlooked for years. For example, the City has negotiated new collective bargaining agreements and MOUs to address the stipend issues. The City continues to work diligently to improve improper policies and practices that have existed historically, but had gone unnoticed by state or local agencies until the recent corruption was discovered. The current administration intends to make positive changes to enable the City to move forward in a financially sound and lawful manner.*

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

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of establishing effective policies and monitoring

procedures over payroll. We will follow up on the status of the finding during our 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

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

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Wapato January 1, 2019 through December 31, 2020

**2020-004 The City continues to lack adequate oversight to ensure disbursements and credit card payments are for allowable and appropriate business expenses.**

#### *Description of Condition*

The City lacked adequate procedures over disbursements and credit card activity for safeguarding public resources. The City did not implement controls over credit cards and disbursements to ensure supporting documentation was both required and kept for all disbursements transactions, and that someone independently reviewed all purchases before payment.

This issue was reported as a finding in the prior audit.

#### *Cause of Condition*

The City experienced significant turnover during 2019 and 2020 and also converted to a new accounting software system. In working through these changes, management and the Council did not devote sufficient attention to the accounts payable process to address prior audit recommendations, adequately train staff or monitor activity.

#### *Effect of Condition*

Inadequate internal controls over disbursements and credit card activity increase the risk management could not detect quickly, if at all, a loss or misappropriation of public funds.

In 2019 and 2020, the City paid \$43,099 for 69 general disbursements and \$6,928 for 38 credit card transactions, which did not include supporting itemized receipts. As a result, we could not determine whether these transactions were for valid business purposes. The City also did not keep adequate supporting documentation, such as a conference agenda or attendee lists for meals, for determining the validity of 20 transactions totaling \$1,174. The City also paid \$330 in unallowable late fees, and incorrectly paid \$225 for another government's invoice.

Additionally, the City paid three employees through accounts payable instead of payroll in 2019, totaling \$11,547, and one employee in 2020, totaling \$2,379.

Finally, the City did not perform an independent review of 62 transactions in 2019, totaling \$129,666, and another 55 transactions in 2020, totaling \$67,858.

### ***Recommendation***

We recommend the City:

- Adequately train staff responsible for processing accounts payable on the allowable use of expenditures and proper recording of transactions
- Establish policies and procedures over disbursements and credit cards that include keeping itemized receipts for all transactions, and performing an independent review of expenses to ensure they are for valid business purposes, supported, and properly coded

### ***City's Response***

*The City has implemented the recommendations set forth above. The City has reduced and discourages the use of credit cards for purchasing. City staff have been properly trained in payroll and accounts payable processes.*

*The City has hired competent and qualified employees that have received training and are working hard to follow applicable accounting rules to ensure accounts payable processing is accurate. Nothing is processed without the back up and necessary invoices and approvals. There is a triple audit performed on all the disbursements and of the BARS coding training is ongoing and will be a constant as well as cross-training. This City staff assisted the State Auditors, to their fullest extent with self-reporting, to make sure that every discrepancy was reported to help the City correct and maintain a complete report of the injustice that had been done to this City. We will continue to work side by side with all agencies involved to produce an accurate and complete reporting for all involved.*

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

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of establishing effective policies and monitoring procedures over City spending. We will follow up on the status of the finding during our 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

*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, Expenditures, Purchase Cards, Sections 3.8.4

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Wapato January 1, 2019 through December 31, 2020

#### **2020-005    The City did not comply with state laws regarding cost allocation and use of restricted resources, spending within legally appropriated budgets, and interfund loans.**

##### *Description of Condition*

During the audit, we reviewed the City's compliance with state laws governing cost allocation and use of restricted resources, budget compliance, and interfund loans. We identified the following:

##### *Cost allocation and use of restricted resources*

Cities charge costs incurred for their central service functions, such as general administration, human resources, payroll and purchasing, to the Current Expense fund or Internal Service funds. State law allows cities to allocate these costs to the funds benefitting from the services as long as the costs charged are proportional to the benefit received. The City must adopt a fair and equitable method for distributing shared costs among departments and funds and document the benefit received when applying these charges. Additionally, state law prohibits resources restricted for specific uses, such as utilities that collect usage-based fees from citizens, to benefit or subsidize other government functions.

The City allocated central service costs and insurance costs to restricted funds. The City lacked written policies adopting a fair and equitable method for allocating costs and determining their reasonableness by comparing allocated costs to actual expenditures. The City is not consistently charging departments for services that internal service funds provide.

Additionally, the City did not ensure restricted resources were spent for allowable purposes.

We have communicated similar issues to City management during the past four audits.

##### *Budget compliance, monitoring of ending cash and investments and interfund loans*



The City Council annually approves a budget determining the City's legal spending limits. Under state law (RCW 35.33.121), spending should not exceed this level without a Council-approved budget amendment. Moreover, the Council cannot authorize spending that exceeds available funds.

Additionally, City expenditures within a fund cannot exceed the fund's available resources, because it creates an unallowable borrowing of resources between funds. However, state law allows local governments to establish loans between funds. The *Budgeting, Accounting and Reporting Systems* (BARS) manual stipulates minimum acceptable procedures for making and accounting for the interfund loans. For example, the BARS manual requires the governing body formally approve all loans and set a reasonable interest rate. Further, the borrowing fund must anticipate sufficient revenues to make specified principal and interest payments as required. Interfund loans must be considered "temporary" in nature, which the BARS manual generally defines as three years.

The City has not monitored financial activity and expenses. Examples include the following:

- The City did not fully reconcile its general ledger to the bank statements for 2019 until 2020. As a result, the City cannot ensure the general ledger includes all revenues and expenditures for the period and that cash balances are accurate. This information is necessary for management to monitor financial activity effectively.
- The City did not record beginning fund balances in the general ledger for 2019, preventing staff and the Council from knowing each fund's financial resources as they made decisions throughout the year.
- The City did not monitor its budget or available fund balance when obligating expenses to ensure the City was spending within its authorized appropriations and resources.
- The City did not have a process for repaying interfund loans.

We have communicated similar issues to City management during the past two audits.

### *Cause of Condition*

Nearly all City Hall staff were new to their positions in 2019. Staff responsible for allocating costs said they did not understand cost allocation requirements or how charges must be recorded. Staff also did not fully understand how to reconcile the general ledger to the bank activity. The staff responsible for recording beginning

fund balances in the general ledger no longer work for the City, so we could not determine why they did not enter those balances.

The City has not devoted sufficient time and resources for developing adequate controls and oversight over financial activity. Additionally, the City has not prioritized promptly resolving previous audit recommendations.

### *Effect of Condition*

#### *Cost allocation and use of restricted resources*

The City allocated central service costs of \$108,297 in 2019 and \$65,246 in 2020 to restricted utility funds without adequate supporting documentation. Additionally, the City allocated insurance costs of \$550,454 to seven restricted funds without demonstrating the benefit received. See details below:

Restricted Fund	Central Service Cost allocation		Insurance Costs
	2019	2020*	2020*
Street	\$0	\$27,830	\$37,401
Water	\$53,675	\$0	\$113,459
Sewer	\$50,828	\$0	\$114,747
Garbage	\$3,794	\$0	\$18,353
Cemetery	\$0	\$23,620	\$18,619
Equipment Rental and Revolving	\$0	\$13,796	\$245,101
Public Works Service Center	\$0	\$0	\$2,774
<b>Total</b>	\$108,297	\$65,246	\$550,454

*\*Based on City's unaudited trial balance*

Without support for the cost allocations, the City cannot demonstrate amounts were fair, equitable, or representative of the services each fund received. Further, the City cannot show it complied with state laws that prohibit shifting restricted resources to other funds.

Additionally, the Information Technology Rental and Revolving Fund did not receive any revenue for services provided to other departments in 2019, and the Public Works Service Center Fund only received revenue from one fund. If the City does not charge other departments for internal services, it cannot ensure internal service funds will have enough resources to operate.

Increased allocated costs to City utilities and the inappropriate use of utility funds could result in higher utility rates and inappropriate subsidies to the Current Expense Fund.

In 2019, the City also:

- Inappropriately paid settlements of \$130,000 and vehicle towing of \$208 through its Information Technology Rental and Revolving Fund that should have been paid using the Current Expense Fund.
- Transferred a total of \$65,518 from the Equipment Rental and Revolving Fund to Street, Sewer and Cemetery Funds, which is not allowable.
- Allocated Equipment Rental and Revolving funds of \$155,000 to the Public Works Service Center Fund without proper support showing this was used to pay for equipment purchases or replacements. Further, we cannot determine what intended services the Public Works Service Center Fund was to provide other departments, because the City did not formally establish it by ordinance or resolution.
- Inappropriately paid for the Harvest Festival banners through the Cemetery Fund, totaling \$1,904.

#### *Budget compliance*

The City overspent approved budgets by \$1,114,533 in 2019 and \$539,353 in 2020. See details below:

<b>Fund</b>	<b>2019</b>	<b>2020*</b>
Current Expense Fund	\$742,853	\$488,391
Community Development Block Grant Rehab Fund	\$0	\$220
SEID Loan - Valicoff Fruit Fund	\$24,829	\$0
Capital Improvement Fund	\$425	\$0
Sewer Fund	\$136,042	\$0
Cemetery Fund	\$0	\$50,742
Information Technology Rental & Revolving Fund	\$100,822	\$0
Inmate Trust Fund	\$867	\$0
Court Bond Trust Fund	\$108,695	\$0
<b>Total</b>	<b>\$1,114,533</b>	<b>\$539,353</b>

*\*Based on City's unaudited trial balance*

Additionally, when budgeting for 2021, the City budgeted more expenses than revenues for the Current Expense Fund by \$766,969.

#### *Interfund loans*

The City paid expenditures from funds that did not have available cash and reported negative cash and investment balances totaling \$787,121 in 2019 and \$907,217 in 2020. See details below:

<b>Fund</b>	<b>2019</b>	<b>2020*</b>
Current Expense Fund	(\$541,408)	(\$501,473)
SEID Loan - Valicoff Fruit Fund	(\$4,384)	\$0
Information Technology Rental & Revolving Fund	(\$240,880)	(\$291,343)
Public works service center fund	(\$449)	(\$114,401)
<b>Total</b>	<b>(\$787,121)</b>	<b>(\$907,217)</b>

*\*Based on City's unaudited trial balance*

When expenditures in a fund exceed the available resources, the City is borrowing from other funds to continue operations without formally establishing an interfund loan. The Council must approve interfund loans by resolution or ordinance that includes a payment plan and sets a reasonable interest rate to be paid to the lending fund. If such funds are not repaid in a timely manner, the interfund loan becomes an unallowable diversion of funds.

Additionally, the City has not made any repayments on a 2016 interfund loan of \$55,000 from the Current Expense Fund to the Water Construction Managerial Fund.

Similar issues were also reported in the 2019 financial audit, under report number 1029250 in finding number 2019-002.

### ***Recommendation***

We continue to recommend the City develop and follow a policy governing how it calculates and charges shared services costs to all funds and adequately train staff over this activity. Also, costs charged should be proportional to the level of service or benefit each fund is provided. To accomplish this, the policy should specifically require the City to:

- Develop and use a cost allocation plan for charging shared services across funds. The plan should include a reconciliation of actual expenditures to budgeted amounts if budgeted amounts are used for cost allocations.
- Document the amounts charged and corresponding support
- Periodically review and update the policy and the cost allocation plan for charging shared services costs

We also continue to recommend the City's elected officials and management:

- Obligate expenditures only when funds have the available budget and resources to pay for the transactions and use restricted resources only for allowable purposes
- Repay funds for the unallowable use of their resources

- Establish interfund loans that include appropriate interest rates and repayment plans for funds with negative cash and investments

### ***City's Response***

*See Response to Finding 2019-001 & 002. With the exception of creation of a formal policy, the City is following recommended practices as set forth in this finding.*

*In 2019, the prior administration and city hall staff lacked knowledge, qualification, and/or experience regarding balancing the general ledger, how to account for restricted funding, and were otherwise not qualified to undertake the duties they were assigned. Their lack of knowledge of BARS accounting, their inability to use the accounting system and their failure to use internal controls to effectively record and control the finances of the City resulted in mismanagement and malicious spending in multiple funds. Their bookkeeping practices were inept, which made it nearly impossible to find or follow the paper trails for the manipulated transactions, which may or may not have been completed. As a result, for these reasons and many more, filings were delayed. The new and present staff has taken the steps to ensure training is proper to accurately report financials, which is balanced to date. Funds are tracked and spent appropriately. In cases where inter-fund transfers may occur, appropriate resolutions are used. With the assistance of a financial system that has multiple security mechanisms and designated permissions plus double and triple audits, the current staff has made strides to correct the wrongs of the past. As one measure of that success, the 2020 annual report was filed in a timely manner and the present staff will continue to improve and provide adequate documentation for the Annual Financial Reporting. The City staff recognizes there were many issues from the past, but is committed to continuing to find and correct the wrongs of the past to create a better future.*

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

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of establishing effective policies and monitoring procedures over City spending. We will follow up on the status of the finding during our next audit.

### *Applicable Laws and Regulations*

RCW 35.33.121 – Funds – Limitations on expenditures – Transfers

RCW 35.33.122 Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized

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

RCW 43.09.210 – Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property

*Budgeting, Accounting and Reporting System* (BARS) manual, 3.9.1, Loans



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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### City of Wapato January 1, 2019 through December 31, 2020

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1023796	<b>Finding Ref. No.:</b> 2018-001
<b>Finding Caption:</b> The former Mayor violated the Code of Ethics for Municipal Officers and the City violated its recruiting and hiring personnel policies and state law.		
<b>Background:</b> The City Council held a special meeting on September 4, 2018, and approved an ordinance establishing a City Administrator position. The Mayor then resigned during the meeting. The City Council adjourned the special meeting and immediately began its regular meeting. In the regular meeting, the City Council appointed a new Mayor, and the new Mayor appointed the former Mayor as City Administrator. None of the Council members commented on these topics during the meeting other than to approve of the appointments. The former Mayor received special privileges when he used his position as Mayor to create the City Administrator position and the terms of the contract he was later appointed to fill.		
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The City Council adopted an Ordinance scheduling regular council meetings to occur at fixed times twice per week to add flexibility and to avoid the need for special meetings.</i> <i>The City received Open Government Training in January 2020 to better understand meeting requirements and roles and responsibilities. In addition, as part of a settlement with the Attorney General's Office, City Officials are required to take Open Government training each year.</i>		

*The Contract that was adopted during the meeting was terminated. In July 2019, the City Administrator resigned as part of a settlement with the Attorney General's office and fully released the City. In August 2019, the Council adopted an Ordinance rescinding the City Administrator position. The City is now managed by a Mayor that was properly elected during the 2019 General Election. The Council has also appointed a Mayor Pro Tem to serve in absence of the Mayor (a control that was previously lacking). The City Council is provided with advance notice of meetings and opportunities to comment on agenda items during each meeting. To the extent possible, agendas are made available at least three days before the meeting.*

<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1023796	<b>Finding Ref. No.:</b> 2018-002
<b>Finding Caption:</b> The City violated the Open Public Meetings Act and prevented citizens from accessing the actions and deliberations of government.		
<b>Background:</b> On July 3, 2018, the City removed an elected Council member for missing three unexcused consecutive meetings, in accordance with City ordinance. One of these regular meetings was June 6, 2018, which was cancelled due to lack of a quorum. The City did not have documentation of this meeting to determine whether this Council member was in attendance. Additionally, on October 2, 2018, the Council appointed three Council members to fill vacant positions. These members were appointed at the same time instead of separately as state law requires.		
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected         </div> <div> <input checked="" type="checkbox"/> Partially Corrected         </div> <div> <input type="checkbox"/> Not Corrected         </div> <div> <input type="checkbox"/> Finding is considered no longer valid         </div> </div>		
<b>Corrective Action Taken:</b> <i>The Council members that were improperly appointed were not re-elected at the 2019 General Election and are no longer in office. All current Council members were properly elected.</i> <i>The Council adopted a meeting schedule to provide for additional regular meetings in the month. This provides flexibility to have regular meetings and avoid the need for special meetings during the times when the public may not be able to attend.</i> <i>The City Council received Open Government Training in January 2020. In addition, as part of a settlement with the Attorney General's Office, City Officials are required to take Open Government training each year.</i>		



<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1023796	<b>Finding Ref. No.:</b> 2018-003
<b>Finding Caption:</b> The City did not comply with state laws over cost allocation and use of restricted resources, interfund loans, and spending within legally appropriated budgets.		
<b>Background:</b> <i>Cost allocation and use of restricted resources</i> The City did not have written policies adopting a fair and equitable method of allocating costs nor compare allocated costs to actual expenditures to determine the reasonableness of the allocations. Additionally, the City spent \$125,894 from the Garbage Fund on construction of the swimming pool, and spent \$117,111 from the Sewer Fund on City legal expenses. <i>Budget compliance and monitoring of ending cash and investments</i> The City did not monitor its budget or available fund balance when obligating expense to ensure the City is spending within its authorized appropriations and resources.		
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The City has adopted a budget. Current administration is operating within the guidelines set forth by State RCW's and the BARS accounting manual to record spending to the proper funds (bars code) and make authorized expenditures within the approved fund budget. Restricted funds have been or will be restored and any future budget amendments will be completed by council.</i>		

<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1023796	<b>Finding Ref. No.:</b> 2018-004
<b>Finding Caption:</b> The City did not have adequate controls over cash receipting and billings to safeguard public funds.		
<b>Background:</b> <i>Cash receipts</i> <ul style="list-style-type: none"> <li>Bank and accounting records were not reconciled in a timely manner. Additionally, City Hall did not perform an independent or timely review of these reconciliations to verify that all funds collected were deposited intact and within 24 hours.</li> <li>The person responsible for reconciling daily cash receipts was also responsible for delivering the deposit to the bank and reconciling the monthly bank statements. Also</li> </ul>		

new employees were allowed to use other employee usernames to log into the City's receipting system.

- All cashiers had the ability to adjust receipts without any independent review or monitoring of the transactions.
- The City did not have a process in place to verify that all revenue was deposited collected for business and occupation tax payments, cemetery sales, sale of items and Supporting Investments in Economic Diversification loan.
- The Police Department lacked proper segregation of duties over cash handling procedures. There was no independent review of deposits to ensure all money collected was deposited and that the payment methods agreed to receipting records. Additionally, the Police Department did not deposit funds within 24 hours as state law requires.

#### *Utility Billings*

- Several City Hall employees had the ability to adjust utility accounts without adequate monitoring to verify the adjustments were for legitimate purposes or properly supported.
- The City did not properly adjust accounts for meter-reading errors.
- The City did not verify that all accounts were billed each month.

#### **Status of Corrective Action: (check one)**

☐ Fully  
Corrected

☒ Partially  
Corrected

☐ Not Corrected

☐ Finding is considered no  
longer valid

#### **Corrective Action Taken:**

*The City of Wapato maintains double audits and only cash receipting at 1 location, City Hall. The city maintains 3 cash drawers and 1 change drawer. The City makes daily 2 person deposits to the depositing agency, all bank account information, Cashier drawers and change drawer are locked in a safe within the walk-in safe, the walk-in safe also has a camera in it for safety measures. 2 people are require in the safe area at all times and to open the safe as well. Cashiers are not allowed to void or alter cash drawers by set admin permissions. Voids are only completed by admin and employee required to provide documented support and then filed. The City also purchased new Bias financial software in July of 2019 that eliminates theft and records every transaction in the General Ledger. The City of Wapato had not maintained a General Ledger for some time. The City also purchased locking file cabinets and maintains a proper filing system. Daily banking and cashier deposits are balanced and filed with all the proper documentation require and locked up nightly.*

<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1023796	<b>Finding Ref. No.:</b> 2018-005
<b>Finding Caption:</b> <p>The City violated its nepotism policy and did not have adequate internal controls over payroll, disbursements, and credit card activity to safeguard public resources.</p>		
<b>Background:</b> <p>The City did not have adequate procedures in place over disbursements, credit card and payroll activity to safeguard public funds. Specifically, the City did not:</p> <ul style="list-style-type: none"> <li>• Ensure management and staff both understood and complied with state laws, City policies and the collective bargaining agreement</li> <li>• Ensure it collected and retained timesheets to support payroll, and related personnel documents to support the full- or part-time status and pay rates for employees</li> <li>• Implement necessary payroll processing procedures or monitoring of the payroll function to ensure staff calculate payroll using the correct pay rates</li> <li>• Implement controls over credit cards and disbursements to ensure supporting documentation is both required and retained for all disbursements and credit card transactions and that someone independent review all purchases before payment</li> </ul>		
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <p><i>In July 2019, the City Administrator resigned his position with the City (as part of a settlement in a lawsuit filed by the Attorney General). In August 2019, the City Council repealed the Ordinance establishing the City Administrator position. There is no longer a City Administrator for the City.</i></p> <p><i>Nearly all other employees with ties to the prior administration have left, and all nepotism relationships have been resolved.</i></p> <p><i>The Mayor is responsible and/or has oversight over all personnel decisions, including hiring and firing. Hiring is done in compliance with city policies and union contracts including internal and external advertisements as applicable. The City follows the nepotism policy to avoid the hiring of relatives.</i></p> <p><i>The budgets for staff and contract positions are approved by Council. Contracts are only used for certain statutory or appointed (non-union) positions including clerk/treasurer, attorneys, police chief, code enforcement, and fire chief. All contracts require prior approval of council. There is separation of duties and employees are bound by administrative permissions for purchases. All payroll and Accounts Payables are double audited and signed by the Clerk-Treasurer and Mayor or Mayor Pro-Tem. Credit card use was stopped by Resolution of the City Council in late 2019 but has been allowed to resume for limited authorized purposes. Cards are issued for department use, and not personal use.</i></p>		

<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1023796	<b>Finding Ref. No.:</b> 2018-006
<b>Finding Caption:</b> The City did not comply with state procurement requirements.		
<b>Background:</b> The City did not competitively procure or formally claim an exemption for the purchase of two vehicles and the City did not advertise for the engineering service of the North Wapato Lift Station project or go through the process of selecting the most qualified vendor. Additionally, the City created a small-works roster in 2018 without advertising for interested contractors and awarded the swimming pool renovation project using the small works roster. The City should have formally bid the project because the total amount exceeded \$300,000.		
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The City is following all State Laws and procurement requirements. Unless exemptions apply, the City has or will solicit bids for major purchases or public works construction contracts. The City has not had need to bid a major project over the last year but will likely be soliciting sealed bids for a project in 2021.</i>		

## 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>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding preparing financial statements and schedules accurately and timely. That report also includes a finding over instances of noncompliance that are required to be reported under Government Auditing Standards related to budget compliance and use of restricted resources. This noncompliance places the City at risk of not being able to meet future financial obligations or continue operations at current service levels.

## INFORMATION ABOUT THE CITY

The City of Wapato was incorporated in 1908 and covers four square miles in Yakima County. Currently, it serves approximately 4,500 citizens.

A mayor-council form of government administers the City with an elected, seven-member Council and an independently elected Mayor. The City operates on an annual operating budget of approximately \$7.2 million. The City's 36 full-time and three part-time employees provide services including police, jail, fire protection, Municipal Court, parks and recreation, and public works.

Contact information related to this report	
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Contact:	Kimberly Grimm, Clerk/Treasurer
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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 Wapato at <http://portal.sao.wa.gov/ReportSearch>.

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