



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Town of Malden

For the period January 1, 2018 through December 31, 2020

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

January 26, 2023

Mayor and Town Council
Town of Malden
Malden, 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.

Attached is our independent audit report on the Town's compliance with applicable requirements and safeguarding of public resources for the areas we examined. On September 7, 2020, a wildfire moved through the Town and destroyed most of the community's homes and buildings, including the Town Hall where original financial documents were stored. The fire affected every Town resident, and while recovery will take time, I know everyone is working to rebuild this community.

State law requires our Office to examine the financial affairs of every local government, regardless of circumstances, at least once every three years. In accordance with this law, our Office engaged with the Town to conduct the required audit. Town management and staff worked diligently to provide our Office with available records, but we could not audit most of the Town's general disbursement and credit card activity.

We appreciate the opportunity to work with your staff and value your cooperation during the audit. We hope our continued partnership proves valuable as the Town continues to rebuild.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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TABLE OF CONTENTS

Audit Results.....	5
Schedule of Audit Findings and Responses.....	7
Information about the Town	9
About the State Auditor's Office.....	10

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, Town operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources. On September 7, 2020, a wildfire destroyed about 80 percent of the Town, including the Town Hall where original physical records were stored. Due to this extraordinary event, we could not review all supporting documentation to conclude on general disbursements and credit card payments. We are also unable to determine if Town payments complied with applicable state laws and regulations, and if it provided adequate controls to safeguard public funds during the audit period.

As referenced above, we identified areas where the Town should dedicate resources to improving its records management system. These recommendations are included with our report as a finding.

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 Town of Malden from January 1, 2018 through December 31, 2020.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Town'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, 2019 and 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts receivable – utility billings and adjustments
- Accounts payable – general disbursements and credit cards
- Procurement – public works

- Compliance with public works projects – prevailing wages
- Compliance with state grants – Transportation Improvement Board grant
- Debt limitation
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Town of Malden January 1, 2018 through December 31, 2020

2020-001 The Town did not have adequate records supporting its financial transactions, which prevented our Office from performing some audit procedures.

Background

Town management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws, policies and the safeguarding of public resources. Town management is also responsible for the integrity and retention of original vouchers, invoices and other documents – regardless of form – necessary to prove the validity of every transaction relating to the receipt, use and disposition of public funds and property. This requirement extends to all accounting entries. While the Town maintains accounting entries in its software, it maintains most supporting records and documentation in physical form.

In prior audits, the Town has been able to provide supporting documentation at our request, and has not received audit recommendations about records retention. However, on September 7, 2020, a wildfire destroyed about 80 percent of the Town, including the Town Hall where original physical records were stored. Due to this extraordinary event, our Office could not audit most of the Town's vendor payments, which included general disbursements and credit cards.

Description of Condition

Specific to the areas selected for audit, the Town provided most supporting records from its accounting software and other electronic storage. However, the Town did not have physical supporting documentation, including documented approvals, for most vendor payments selected for testing.

Cause of Condition

The wildfire destroyed all the Town's original physical records as of September 7, 2020. Though all physical records were lost as of this date, Town management and staff provided available electronic records for audit.

Effect of Condition

Without original physical records and supporting documentation, we could not perform detailed testing for all vendor payments for the period under audit. As a result, we cannot determine if losses occurred or if the Town spent funds only for allowable purposes.

We did not attempt to audit every area of the Town's operations and, therefore, it is possible other areas outside of our scope of audit are also unsupported.

Recommendation

We recommend the Town dedicate resources to establish a system to ensure the protection and retention of physical records supporting its financial transactions.

Town's Response

The Town does not challenge the report and understand the difficulty of the investigation without documentation for the transactions.

The Town agrees to pursue methods to have "back-up" materials off-site and to improve the protection and retention of physical records.

Auditor's Remarks

We appreciate the Town's commitment to pursue options for retaining original records and to resolve this finding. We thank the Town for its cooperation and assistance during the audit and will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.4, Original Supporting Documentation, requires local governments to retain original vouchers, receipts and other documents to prove the validity of accounting transactions.

INFORMATION ABOUT THE TOWN

The Town of Malden served approximately 200 citizens in Whitman County until September 2020 when the population decreased to 125 citizens. Some citizens left the Town after losing their homes in the wildfire. The Town's two part-time employees provide an array of services including parks and recreation, street improvement, water and general administration. The Town contracts with Whitman County for policing services.

An elected, five-member Council and a separately elected Mayor govern the Town. The Town operated on annual revenues of \$302,694, \$141,482 and \$123,400 for fiscal years 2020, 2019 and 2018, respectively.

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 Town of Malden at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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