



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Ferndale

For the period January 1, 2022 through December 31, 2022

Published April 18, 2024

Report No. 1034601



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

April 18, 2024

Mayor and City Council
City of Ferndale
Ferndale, 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

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Audit Results..... 4

Summary Schedule of Prior Audit Findings 5

Related Reports 8

Information about the City 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 those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

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 Ferndale from January 1, 2022 through December 31, 2022.

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 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 year ended December 31, 2022, 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 billing
- Selected IT security policies, procedures, practices and controls protecting financial systems – patch management, user access, IT related policies.
- Accounts payable – general disbursements and credit cards
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



CITY OF FERNDALE

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Ferndale January 1, 2022 through December 31, 2022

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

Audit Period: January 1, 2021 to December 31, 2021	Report Ref. No.: 1032711	Finding Ref. No.: 2021-001				
Finding Caption: The City lacked adequate internal controls and monitoring over significant accounting systems to ensure safeguarding of public resources.						
Background: In July 2021, the City notified our Office regarding a potential loss of public funds, as required by state law, and hired an external party to investigate the suspected loss. The investigation and City's review identified the following weaknesses in its utility billing process: <ul style="list-style-type: none">• The City's utility billing software does not require secondary approval to adjust utility accounts.• Adjustment reports related to utility billing were not adequately reviewed.• Utility billing staff can remove meters from routes without secondary approval.• The City did not have a process in place to ensure all elements of utility billing were included for all accounts and all clients who had an active meter were appropriately billed.• The City has been working on addressing these control weaknesses. We further reviewed the City's utility billing processes and found the following weaknesses still exist: <ul style="list-style-type: none">• The City has not completed an inventory of all meters.• Utility billing employees provided adjustment reports to reviewers rather than reviewers obtaining the adjustment reports themselves.• Utility billing employees could modify elements of customer accounts without secondary review or approval. The City's controls do not ensure that accounts are billed in agreement with contracts.						
Status of Corrective Action: (check one) <table><tr><td><input type="checkbox"/> Fully Corrected</td><td><input checked="" type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<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
<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			

Corrective Action Taken:

The City has fully resolved several items identified by the Washington State Auditor, and has partially corrected all but one of the remaining items, with progress continuing on these partially completed items.

- *The City considers this action completed, but a part of a perpetual process Status: Partially completed. The City Finance Department has completed an internal audit, wherein all meters in the City's utility billing system have been compared to the Whatcom County Assessor's site. The City believes that this qualifies as an appropriate secondary count. The City has categorized this effort as "partially corrected" as a full inventory of verifying meters in the field is ongoing, and likely perpetual in nature. While uncommon, when the Public Works Department encounters a meter in the field that was previously unknown, any new meters identified in the field will be brought to the attention of both the Public Works and Finance Departments, and will be added to the City's inventory unless other circumstances require that it be removed from the field, or not added to the City's inventory.*

In addition, the City's GIS system has also been updated, and will continue to be updated as an additional internal check via quarterly updates provided by the City's Utility Billing Clerk to the City's GIS Technician. Upon receipt of these quarterly updates, the City's GIS Technician updates the GIS database and raises any issues or concerns, or inconsistencies with the Utility Billing Clerk. These processes were initiated and fully implemented in 2020 and continue to be followed 2020-present.

- *Utility billing employees provided adjustment reports to reviewers rather than reviewers obtaining the adjustment reports themselves.*

The City considers this action partially completed.

The City has implemented a dual review by independent Finance Staff consistent with SAO guidance in order to ensure that a reviewer other than the Utility Billing Clerk can directly pull reports from the City's Utility Billing software, in order to ensure that such reports are not manipulated or altered by Utility Billing Staff. The City had initially created a process wherein such reports were provided to the Director by the Senior Accountant, following an independent review by the Senior Accountant to verify that no alterations had been made. However, due to transitions within the Finance Department, the City recognizes that there were instances in 2023 in which this process could not be followed in all cases, due to the unavailability of the Finance Director. In such cases, the Senior Accountant served as the independent reviewer. In short, the process that had been implemented was in retrospect overly-prescriptive in limiting the reviewing authority to the Finance Director. The City anticipates that a revised final process will be adopted and implemented by the end of the 4Q 2024, with revised policies and/or instructions to follow, which enable Finance staff other than the Finance Director, and other than utility billing staff, to act as the reviewer.

- *Utility billing employees could modify elements of customer accounts without secondary review or approval.*

The City does not consider this action to be corrected. The City respectfully requests that this finding be considered no longer valid.

The City's current utility billing software (Vision – Utility Billing Classic module) does not allow this function to occur, and the City has verified that utility billing employees could modify elements of customer accounts without secondary review or approval.

However, the City notes that it has investigated opportunities through a Request For Qualifications (RFQ) process and did not receive qualifications from any vendor with software that has the recommended capabilities. Further, the City has conducted informal research with other jurisdictions and has not identified any non-custom-built software that provides this function. Thus, the City respectfully disagrees that there is a viable software-based solution to this issue.

While there does not appear to be a software-based solution, the City has adopted a number of internal controls to review changes. The City has also recently acquired Vision's "UB2" software, and to implement it beginning in the first quarter of 2024.

UB2 includes audit logs that will enable the City to independently verify or identify any modifications – a function that the current software system does not provide.

- *The City's controls do not ensure that accounts are billed in agreement with contracts.*

The City considers this action to be fully resolved. The City has reviewed all existing contracts and has completed or is in the process of completing modifications to these agreements, where necessary. Please note that as these are agreements between the City and third parties, the City cannot fully control the timeframe for completion and approval

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 preparation of the financial statements and ensuring accurate and reliable financial reporting.

Other reports

We issued an examination report on the City's compliance with Coronavirus State and Local Fiscal Recovery Funds Program Requirements as part of the American Rescue Plan Act of 2021. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Ferndale was incorporated in 1907 and serves about 16,330 Whatcom County residents. The City has approximately 85 employees who provide an array of services including water, sewer, storm drainage, police, Municipal Court and planning.

The City is administered by a mayor-council form of government with an elected, seven-member Council and an independently elected Mayor. For fiscal year 2022, the City reported \$41,153,043 in revenues.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Ferndale 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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