



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Town of Hamilton

For the period January 1, 2021 through December 31, 2022

Published May 6, 2024

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

May 6, 2024

Mayor and City Council
Town of Hamilton
Hamilton, 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 Town 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 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 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, 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.

As referenced above, we identified areas where the Town could make improvements. These recommendations are included with our report as a finding.

We also noted certain matters related to open public meetings and water bill adjustments that we communicated to Town management and the Mayor and City Council in a letter dated April 23, 2024. We appreciate the Town's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

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 Hamilton from January 1, 2021 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 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, 2022 and 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Annual report filing – timeliness and completeness
- Accounts receivable – water billings and adjustments
- Accounts payable – general disbursements
- Treasury activities – bank reconciliations
- 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 Hamilton January 1, 2021 through December 31, 2022

2022-001 The Town lacked adequate internal controls and monitoring over its operations and financial activities to ensure the safeguarding of public resources and compliance with state law.

Background

The Town of Hamilton is located in Skagit County, and it serves about 300 people. The Town operated on an annual budget of about \$1.4 million in fiscal year 2022. A five-member Council and independently elected Mayor govern the Town. The Town has seven employees.

The Town is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance it safeguards public resources and uses them in compliance with applicable state laws and the *Budgeting, Accounting and Reporting System* (BARS Manual).

Description of Condition

The Town lacked effective internal controls for ensuring it safeguarded public resources and complied with state law. Specifically:

- The Council did not approve all the disbursement transactions before the Town issued payments. The Town also bypassed Council approval by using debit cards to make payments.
- The Town did not have adequate segregation of duties, as one employee was able to initiate, approve and make payments. The same employee was also the signer on the Town's bank account without additional oversight from the Council or Mayor.
- The Town did not have documented agreements for employees' wage rates. In addition, there was no detailed secondary review by the Council or Mayor to ensure payroll amounts were accurate.
- There was no detailed secondary review by the Council or Mayor to ensure disbursements were accurate, supported and for allowable purposes. We identified \$5,107 in disbursement payments that lacked secondary review and approval.

Cause of Condition

The Town has not created an internal control environment that includes effective oversight and monitoring by the Town Council and Mayor. Additionally, the Town's officials are unaware of statutory and BARS Manual requirements for operating a local government.

Effect of Condition

Inadequate internal controls and a lack of proper oversight resulted in the former Clerk misappropriating public funds. In July 2022, the Town identified a loss of public funds from payroll, cash receipting and disbursements, as noted under the Related Reports Investigations section of this report.

Recommendation

Due to the Town's size of operations, it is essential for all members of the governing body to be closely involved in the oversight. Therefore, we recommend the Council and the Mayor complete detailed and timely reviews of the Town's disbursement, payroll and bank activities to safeguard public resources and comply with all applicable laws. Specifically:

- Establish an independent review of all employee timesheets and pay rate adjustments to detect and prevent errors
- Establish adequate monitoring procedures to ensure disbursements are made only for allowable and valid public purposes
- Require and retain supporting documentation for all transactions to demonstrate its public purpose
- Ensure someone independently reconciles the Town's bank activity to account for all its receipts and disbursements

Town's Response

In response to the Auditors findings for the Audit year 2021-2022, yes, the town did lack adequate internal control at that time. The Council asked for proof of disbursements many times and it was never provided, they asked for banking statements and employee timecards that were never given to them. Council also declined payments to specific transactions, but the previous Clerk still paid them, as she was the only one that had to sign checks and the previous Mayor never backed the Council on any of this. Moving forward from July 2022 the current Town Clerk put in place adequate internal controls and monitoring its operations and financial activities. Transactions are not paid for until approved by Council, all checks require Mayor and Clerk signatures, we have a financial overseer plus all

financial documentation is presented to all Council Members, this includes payroll. We also now have a wage contract for each employee. Debit cards are no longer used, we now have a Town Credit Card. The Council also goes over the bank reconciliation after the financial overseer.

Auditor's Remarks

The governing body has the fiduciary responsibility to ensure proper oversight and internal controls are in place to safeguard public funds. We appreciate the Town's commitment to resolve this finding and thank the Town for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS Manual), Section 3.1.3 – Internal Control

Budgeting, Accounting and Reporting System (BARS Manual), Section 3.1.4 – Original Supporting Documentation

Budgeting, Accounting and Reporting System (BARS Manual), Section 3.8.5 – Voucher Certification and Approval



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Town of Hamilton **January 1, 2021 through December 31, 2022**

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

Audit Period: 12/31/2020	Report Ref. No.: 1029611	Finding Ref. No.: 2020-001				
Finding Caption: The Town lacked adequate internal controls and monitoring over its operations and financial activities to ensure the safeguarding of public resources and compliance with state law.						
Background: The Town of Hamilton is located in Skagit County and serves a population of approximately 300 residents. A five-member Council and independently elected Mayor govern the Town, which has five employees. The Town is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance it safeguards public resources and uses them in compliance with applicable state laws and the <i>Budgeting, Accounting and Reporting System</i> (BARS) Manual. The Washington Open Public Meetings Act (OPMA) requires the Town to have a quorum of Councilmembers to discuss and make business decisions in an open public forum, including the approval of vouchers and resolutions. The Council must approve vouchers before the Town issues payments.						
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: <i>The Town is applying for a credit card now. Kym recently called the bank to get a application for a credit card for the Town. The prior Clerk did not get the paperwork in on time to receive the CARES money. If there is a water leak the Council is the one that have to approve it. The Council now asks for proof that the leak is fixed before someone can get water forgiveness i.e. receipts. Sometimes people don't have receipts because they have the supplies at home so the Town can send Public Works over to make sure meter isn't spinning anymore and then tell the Council. The FEMA parcel rental application has a waiver on the back so Town will not be held responsible, Clerk Kym Eldrige and Water Clerk Theresa Boots are now ensuring everything is filled out completely. Since Kym started in June of 2022 and Theresa was rehired in July of 2022, they have made sure every purchase has an invoice attached and is filed accordingly.</i>						

Audit Period: 12/31/2020	Report Ref. No.: 1029611	Finding Ref. No.: 2020-002
Finding Caption: The Town lacked internal controls over financial reporting to ensure compliance with state reporting requirements.		
Background: State and federal agencies, the Town Council, Mayor and public rely on the information included in financial statements and reports to make decisions. Town management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. State law (RCW 43.09.230) requires the Town to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year. The annual report includes financial statements, supporting schedules and notes to the financial statements.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>Clerk Kym Eldridge ensured 2019, 2020 and 2021 filings were all caught up in August 2022 after she was hired. 2022 report was only late as she forgot to hit the second submit button. Kym takes a class in March and will be submitting the 2023 filing early.</i>		

RELATED REPORTS

Special investigations

We issued a report on a misappropriation of public funds at the Town. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE TOWN

The Town of Hamilton is located in Skagit County and serves a population of approximately 300 citizens.

An elected, five-member Council and an independently elected Mayor govern the Town. The Town's five employees provide general administration, water, street, and fire protection services. For the fiscal years 2021 and 2022 the Town had operating revenues of \$703,432.74 and \$505,396.44, respectively.

Contact information related to this report

Address:	Town of Hamilton P.O. Box 528 Hamilton, WA 98255
Contact:	Kym Eldridge, Clerk/Treasurer
Telephone:	(360) 826-2882
Website:	www.townofhamiltonwa.com

Information current as of report publish date.

Audit history

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