



Office of the Washington State Auditor  
Pat McCarthy

# Accountability Audit Report

## City of Zillah

For the period January 1, 2020 through December 31, 2022

*Published May 20, 2024*

Report No. 1034680



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

May 20, 2024

Mayor and City Council  
City of Zillah  
Zillah, 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

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*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](mailto:webmaster@sao.wa.gov).*

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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 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 City could make improvements. These recommendations are included with our report as a finding.

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 City of Zillah from January 1, 2020 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 years ended December 31, 2022, 2021 and 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Cash receipting – timeliness and completeness of deposits at the Municipal Court and City Hall
- Accounts receivable – utility billings, adjustments and delinquent accounts
- Selected IT security policies, procedures, practices and controls protecting financial systems – patch management and user access

- Payroll – gross wages and overtime
- Accounts payable – fuel
- Contract compliance – Civic Center
- 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

### City of Zillah January 1, 2020 through December 31, 2022

#### **2022-001 The City did not have adequate internal controls over cash receipting at the Municipal Court to safeguard public resources, resulting in a misappropriation of public funds.**

##### ***Background***

The City of Zillah serves about 3,200 citizens in Yakima County. A citizen-elected, five-member Council and a Mayor govern the City, which operates on a \$7.5 million budget and provides services including water, sewer, irrigation, police and Municipal Court.

The *Budgeting, Accounting and Reporting System* (BARS) Manual requires governments to develop internal controls that adequately safeguard public resources. As such, management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance that it properly receipts and deposits all funds collected. Additionally, state law (RCW 43.09.240) requires funds to be deposited to the treasurer of the local government within 24 hours of receipt.

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

Internal controls at the City's Municipal Court were inadequate for safeguarding public resources. Specifically:

- The City did not have a process in place to verify court staff sent accounts to collections timely.
- The Municipal Court collects payments through a drop box outside of operating hours, and two employees are responsible for collecting and recording these payments on a form. When reviewing the daily cash receipts, the City did not also review these forms to ensure all payments were posted to the cash receipting system and were retained. The City is missing forms up to April 2023.
- Although the City established an independent review of adjustments, this review was ineffective in ensuring they were all allowable and supported.

- The City lacked internal controls to verify that all funds collected were recorded and deposited timely and that it retained support for deleted cases.

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

Due to the small size and limited staff at the Municipal Court, it did not dedicate the necessary resources to establish controls over cash receipting such as adequately segregating staff duties and establishing adequate oversight of cash handling procedures.

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

Inadequate internal controls over the City's cash handling activities and a lack of proper oversight resulted in a misappropriation of public funds. In November 2023, the City notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). Our Office investigated and found that the Court Administrator misappropriated \$3,239 from the City. As noted under the Related Reports – Special Investigations section of this report, we reported this misappropriation of cash payments, adjustments to cash receivables and deletion of cash receipts in Fraud Investigation Report No. 1034751, which was issued May 20, 2024.

We also reviewed all Municipal Court deposits from July to August 2023 and found five of the seven deposits totaling \$2,659 were deposited two to 10 days after the money was collected, and six drop box payments from April to August 2023 were deposited up to 27 days late.

Additionally, we reviewed the monthly deleted cases report from January 2021 through July 2023 and found the City Administrator deleted four cases without retaining supporting documentation for why these cases were deleted.

### ***Recommendation***

We recommend the City's Municipal Court strengthen its internal controls over cash receipting to ensure all overdue accounts are sent to collections, all drop box payments are recorded and deposited, and adjustments to accounts and cash receipts are allowable. We also recommend the City's Municipal Court deposits funds within 24 hours as required by state law and properly supports deleted cases.

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

*Thank you for allowing us to provide a response to the concerns raised in the investigation of the city's Municipal Court. The issues raised in the investigative report are related to the actions of the former Court Clerk. The City had followed the appropriate process related to addressing performance issues per the Union agreement. However, the steps taken did not resolve the continued performance deficiencies and resulted in the termination of the Court Clerk in August of 2023. After the Court Clerk was terminated, the City became aware of some irregularities that suggested that there was misappropriation of funds. The City timely reported the concerns to the Washington State Auditor's Office and the Yakima County Sheriff's Office.*

*While the investigation ensued, the City has taken several steps to strengthen the internal controls for the Court. We have entered into an agreement with Yakima County District Court to provide training and auditing services. The clerk position in the Court is part time and is the only position in the Court, other than the part time Judge. With the addition of the partnership with Yakima County District Court, we have a resource that has allowed us to ensure greater segregation of duties to strengthen our internal controls. We have used the resources of the Washington State Auditor's Office to help us better understand segregation of duties, especially as it relates to agencies with limited staffing.*

*Regarding cash receipting, available on request, is a policy related to cash handling which encompasses receipting and depositing of payments. We have worked diligently over the past several months to implement processes that have culminated in this policy. Some of the things that we have done are removal of the cash drop box, implementation of a daily cash control form and the establishment of a cash handling policy.*

*Another area of focus has been the end of month processing for the Court. The task has primarily been done by the Court Clerk. While the task itself is not difficult, it is tedious and requires focus to not miss steps. Errors could result in necessary reports not being prepared or being prepared with incorrect information. While the new Court Clerk will be trained in this task, the Judge determined that it was important and necessary to have another person trained. We have leveraged our agreement with Yakima County District Court to assist in the monthly process and the training. This ensures greater oversight in this critical task. Furthermore, to ensure greater access to these reports the Court has developed a process to save them electronically in .pdf format which is regularly backed up to secure cloud storage.*



*The end of month processing is directly tied to the auditing process. Available on request is a new auditing policy. The auditing function for the Court will be completed by staff from Yakima County District Court pursuant to the agreement. Separating this critical function from the Court further reinforces our internal controls and is consistent with the principles related to segregation of duties.*

*Another area that we have addressed is related to regular and timely case management using BIT reports that are available to us through a database maintained by AOC. The Court has scheduled regular monthly reports that will be processed by the Court Clerk. Available on request is a list of reports including a description of the purpose of the report. We are currently building a process and policy related to these reports.*

*As was noted in the report, the first indication that there had been some misappropriation occurred when the Court discovered that collection accounts were not being turned over to the contracting collection agency. To strengthen the internal controls in this area we have engaged our contract collection agency to perform the function of transferring cases monthly for collection processing. The Court generates a report to monitor this activity, but the task is performed by the collection agency. Separating this critical function from the Court further reinforces our internal controls and is consistent with the principles related to segregation of duties.*

*The City has taken this situation seriously as evidenced by our immediate report to the Washington State Auditor's Office and the Yakima County Sheriff's Office. While we have implemented many new processes, policies and controls to address the concerns outlined in the report, we will continue to review, re-evaluate and monitor our processes moving forward to ensure that we have the appropriate controls in place. We want to thank the Auditor's Office for their assistance in the investigation and their guidance.*

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

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

### *Applicable Laws and Regulations*

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

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

*Budgeting, Accounting and Reporting System (BARS) Manual* – Accounting 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

## 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>.

### **Special investigations**

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

## INFORMATION ABOUT THE CITY

The City of Zillah was incorporated on January 5, 1911. The City serves approximately 3,200 citizens in Yakima County. It is a non-charter code city administered by a mayor-council form of government.

The citizens elect five Council members and a Mayor. The City operates on a \$7.5 million budget. The City provides services including water, sewer, irrigation, police, and Municipal Court. The City also operates a cemetery, a seasonal swimming pool, a volunteer fire department, and contracts with a private contractor for garbage service.

### Contact information related to this report

Address:	City of Zillah 503 First Avenue P.O. Box 475 Zillah, WA 98953
Contact:	Shelli Quantrell, Deputy Clerk-Treasurer
Telephone:	509-829-5151
Website:	<a href="http://www.cityofzillah.us">www.cityofzillah.us</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the City of Zillah 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](http://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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