



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Morton

For the period January 1, 2019 through December 31, 2021

Published August 29, 2024

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

August 29, 2024

Mayor and City Council
City of Morton
Morton, 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. This report highlights significant risks presented by the City's lack of appropriate financial safeguards. The risks we identified have since been realized to the City's financial loss, as detailed in two separate fraud reports.

We appreciate your cooperation during this audit, which includes recommendations to prevent further losses. I strongly encourage you to follow those recommendations and to diligently work to meet the expectations of state law, the Washington public, and your own community.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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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, the City did not provide adequate controls over safeguarding of public resources in most of the areas we examined.

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

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

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 Morton from January 1, 2019 through December 31, 2021.

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, 2021, 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:

- Accounts payable – general disbursements and credit cards
- Cash receipting – design of controls
- Payroll – gross wages, overtime, leave balances and accruals
- Procurement – public works and purchases
- 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 Morton January 1, 2019 through December 31, 2021

2021-001 The City lacked internal controls and procedures over its essential financial functions, including disbursements, cash receipting and payroll, to ensure safeguarding of public resources.

Background

The City of Morton is in Lewis County and serves about 1,100 people. The City's operating budget was \$2.2 million in 2019, \$2.0 million in 2020 and \$6.9 million in 2021. An elected, five-member council with a separately elected Mayor govern the City. The Council and Mayor hire a Clerk-Treasurer to oversee the City's daily operations. The Clerk-Treasurer has key financial system access including handling cash receipting, processing vendor and payroll disbursements, and reconciling bank accounts.

The City is responsible for designing, implementing and maintaining internal controls that provide reasonable assurances 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 City's internal controls over disbursements, cash receipting and payroll were insufficient for preventing misappropriations of public funds.

Disbursements

The City did not segregate duties related to disbursements and did not monitor the Clerk-Treasurer's activities. The Clerk-Treasurer position was responsible for preparing invoices, processing payments, writing checks and reconciling bank accounts. This allowed the same person to initiate payments without support or proper approvals and process these payments without management or Council oversight. Management and the Council did not monitor bank activity to ensure disbursements were supported, accurate and legitimate. Additionally, there was no oversight of the Clerk-Treasurer's monthly bank reconciliations of accounting records to the bank accounts.

Cash Receipting

The City receipts monies for utilities, RV park fees, business licenses and other miscellaneous revenues. The Clerk-Treasurer was primarily responsible for preparing the bank deposit, depositing the funds and reconciling the bank statements to City records. The City did not monitor or oversee these functions to ensure the Clerk-Treasurer deposited funds received.

Payroll

The City processes payroll twice a month for all employees. The Clerk-Treasurer was responsible for processing payroll and issuing checks to employees. The City lacked oversight of payroll to ensure that payroll amounts aligned with expected pay amounts and that the Clerk-Treasurer was not processing payroll earlier than policy allowed.

Cause of Condition

The City did not create internal controls that include effective oversight and monitoring by the City Council and Mayor. The City lacked segregation of duties for the Clerk-Treasurer position and adequate monitoring to prevent or detect misappropriation timely.

Effect of Condition

As part of a routine financial statement audit in October 2022, we identified a potential loss of public funds at the City related to ATM cash withdrawals. We initiated an investigation and identified further loss of public funds from disbursements, cash receipting and payroll, as noted under the Related Reports – Special Investigations section of this report.

Inadequate internal controls over the City’s activities and a lack of proper oversight resulted in a \$937,584 misappropriation of public funds over the course of nine years that was not detected by the City Council and the Mayor until our audit.

Recommendation

We strongly recommend the City develop and implement internal controls over all essential financial functions to ensure oversight and monitoring to safeguard public resources. At a minimum, the City should:

- Ensure someone independent of the cash receipting and payment processes performs a secondary review of all City bank accounts to ensure all deposits are complete and payments are supported and legitimate expenditures of the City
- Segregate duties over cash receipting so that one person is not solely responsible for preparing and depositing cash receipts and also reconciling the bank account to deposits
- Timely complete monthly bank reconciliations that management and the Council review
- Ensure payroll amounts are supported by time worked and that the Clerk-Treasurer processes them no earlier than City policy allows
- Develop and implement policies and procedures over the City's essential financial functions including cash receipting, vendor and payroll disbursements, and bank reconciliations

City's Response

The City of Morton would like to thank the State Auditor's Office for their effort in responding to our Fraud Investigation of 2022 and the Audit of our 2019-2021 Records. You have been very helpful in the ongoing process.

In 2021, the City Council passed an Ordinance eliminating the position of joint Clerk/Treasurer, and instead created the stand-alone position of City Clerk, and the stand-alone position of City Treasurer. By doing so, the City sought to provide checks and balances necessary for accountability and accuracy, and to also reduce the workload and responsibility for any single person. With the elimination of the joint Clerk/Treasurer position, there was no longer a single person responsible for banking, bill paying, and payroll reconciliation.

With the help of the State Auditor's Office recommendations, the City of Morton is moving forward with improvements to better serve our community. Honesty and integrity is the best policy for everyone concerned. Sincerely, Mayor Rick Mead, City Council Members and Staff for the City of Morton.

Auditor's Remarks

We appreciate the steps the City is taking to resolve these issues. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3.30, states in part, "The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3.3, Internal Control

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

RCW 43.09.200, Local government accounting – Uniform system of accounting

RCW 42.24.080, Municipal corporations and political subdivisions – Claims against for contractual purposes – Auditing and payment – Forms – Authentication and certification

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Morton January 1, 2019 through December 31, 2021

2021-002 The City lacked internal controls over employee activities to ensure safeguarding of public resources.

Background

The City of Morton is in Lewis County and serves about 1,100 people. The City's operating budget was \$2.2 million in 2019, \$2.0 million in 2020 and \$6.9 million in 2021. An elected, five-member Council with a separately elected Mayor govern the City. The City is responsible for designing, implementing and maintaining internal controls that provide reasonable assurances it safeguards public resources from loss and misappropriation.

Description of Condition

The City lacked adequate oversight and internal controls to safeguard public resources, which increased the risk of misappropriation. Our audit noted the following concerns:

Credit Cards

The City did not adequately monitor the Police Chief's use of a City-issued credit card to ensure all purchases were sufficiently supported. Without adequate support, the City cannot ensure purchases he made were for a valid business purpose.

Bank Account

The City of Morton had a reserve police program which had its own separate bank account that was not overseen or monitored by the City. The City did not establish agreements including terms and conditions for how the Association would conduct business with the City, such as defining which programs and fundraisers should be the City's or the Association's. Instead, the Police Chief was given full responsibility for overseeing this non-City-owned bank account. The Police Chief later established a sub-bank account for a new program that the City did not have access to. This new program that the Police Chief created was not City-sanctioned, but he used City resources, including the City's social media page, to advertise for the program and solicit donations. These advertisements gave the impression that the program was City-sanctioned and therefore subject to City oversight, which was

not the case. Since the fundraising activities involved the use of City resources and the Police Chief used his role as a City employee to manage the fundraising activities, the funds collected and disbursed may have been considered government funds that the City would be responsible for overseeing and monitoring. Further, by serving both the City and the Association, the Police Chief made decisions on behalf of both parties at the same time, which may be a conflict of interest.

We reviewed the bank account and found \$17,363 in deposits and \$17,403 in various expenses which included cash withdrawals, out-of-state purchases and travel purchases between April 2021 and July 2023.

Cause of Condition

The City did not create adequate internal controls that included effective oversight and monitoring by the City Council and Mayor.

Effect of Condition

On August 22, 2023, the City notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). The City identified in an investigation that the Police Chief made \$198.80 in personal credit card purchases in May and June 2023. We agreed with this conclusion and found that the Police Chief made another \$1,013.73 in questionable credit card purchases between May 2017 and January 2023, as noted in the Related Reports – Special Investigations section of this report.

Further, without adequate oversight of employee activities, including monitoring for separate bank accounts, the City risks employees using their roles for personal gain and misleading citizens into contributing to non-City-sanctioned activities.

Recommendation

We recommend the City strengthen internal controls over employee activities to ensure adequate safeguarding of public resources and compliance with its policies and procedures. Specifically, the City should:

- Ensure all purchases have adequate support to show they are for a valid business purpose.
- Clearly define the criteria for the difference between City-sponsored events versus non-City-sponsored events, especially if City employees are involved.

- Establish internal controls to ensure that agreements with related groups are clearly defined and establish how they will do business with one another. This would also limit or reduce potential conflict of interests between City employees and their external activities.
- Implement additional monitoring and oversight of employees to ensure that City employees do not inappropriately use City resources, including websites and social media, for non-City activity or personal gain.

City's Response

The City of Morton would like to thank the State Auditor's Office for their effort in responding to the Audit of our 2019-2021 Records. You have been very helpful in the ongoing process.

The city has since dis-allowed any such account be created as a private account. Any fund raising must be done and ran thru the cities books using bars codes for revenue and expenditures as all other accounts. By doing so, the City sought to provide checks and balances necessary for accountability and accuracy. A new credit card policy has been put into place with stricter scrutiny on receipts. Any questionable receipt is immediately turned over to the Mayor to follow thru. If an employee does not adhere to these rules their credit card privileges will be revoked.

The City of Morton is moving forward with improvements to better serve our community. Honesty and integrity is the best policy for everyone concerned. Sincerely, Mayor Rick Mead, City Council Members and Staff for the City of Morton.

Auditor's Remarks

We appreciate the steps the City is taking to resolve these issues. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3.30, states in part, "The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3.3, Internal Control

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

RCW 43.09.2855 – Local Governments – Use of Credit Cards.

RCW 43.09.200 – Local Government accounting – Uniform system of accounting

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 the City's preparation of its financial statements and reconciling its cash balances.

Special investigations

We issued two reports on misappropriation of public funds at the City. Those reports are available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Morton serves 1,100 citizens in Lewis County. It is administered by a mayor-council form of government with five elected Council Members and an independently elected Mayor.

The City has approximately 10 full-time employees who provide police services, fire protection, water and sewer utilities, street improvement, parks and recreation and general administration services. The City also owns and operates an airport facility and a cemetery. The City's operating budget was \$2.2 million in 2019, \$2.0 million in 2020 and \$6.9 million in 2021.

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 Morton 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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