



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Cosmopolis

For the period January 1, 2022 through December 31, 2023

Published December 26, 2024

Report No. 1036375



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

December 26, 2024

Mayor and City Council
City of Cosmopolis
Cosmopolis, 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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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.

We also noted certain matters related to financial condition that we communicated to City management and the Mayor and City Council in a letter dated December 20, 2024. We appreciate the City's commitment to resolving those matters.

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 Cosmopolis from January 1, 2022 through December 31, 2023.

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, 2023 and 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 and adjustments
- Financial condition – reviewing for indications of financial distress
- Cash receipting – timeliness and completeness of deposits
- Accounts payable – general disbursements
- Payroll – gross wages and leave cash outs
- Fire Department – general disbursements, credit cards, purchases, and tracking and monitoring of theft sensitive assets
- Open public meetings – compliance with minutes, meetings and executive session requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Cosmopolis January 1, 2022 through December 31, 2023

2023-001 The City lacks adequate controls to prevent or detect utility billing errors

Background

The City collected approximately \$1.31 million and \$1.33 million in revenues from utility and other miscellaneous payments during fiscal years 2022 and 2023, respectively. The City operates a water/sewer and stormwater utility, which serves approximately 765 accounts.

The City is responsible for establishing adequate controls over customer utility billings to ensure they are accurate.

Description of Condition

We examined internal controls over utility billing at City Hall and noted the following concerns:

- One employee manually enters utility rate changes into the billing system. City staff do not perform a secondary review to ensure the information is input accurately and the rates apply to the appropriate period.
- City staff do not perform a secondary review of water usage meter readings that are manually entered into the system to ensure they are accurate before generating the customer's bill.
- City staff do not have established controls to ensure sewer charge calculations are properly supported.

Cause of Condition

The City transitioned to a new utility billing software in 2019. Management did not commit sufficient time and resources to establishing adequate processes and oversight of utility billings.

Effect of Condition

Our audit noted the following. The City:

- Underbilled four accounts approximately \$6,422 for water usage from January 2023 to November 2023 because employees did not update the approved rate in the billing system
- Overbilled all 765 accounts approximately \$17,629 for water, sewer, stormwater and the emergency medical services surcharge for December 2023 because the City updated rates in the billing system before they became effective as of January 1, 2024.
- Did not charge the base sewer rate for one account, which resulted in it underbilling the account by a total of \$190,304 from June 2019 to May 2023
- Did not input the manual meter reading for one account's water usage, which resulted in it underbilling the account for the month. The City adjusted this in the next month's billing after entering an accurate meter reading.
- Did not maintain adequate documentation to show how it calculated the monthly sewer charges for one account that had charges based on active user lots. The City charged this account \$43,910 in sewer services for 2023.

Recommendation

We recommend the City improve internal controls over utility billings to safeguard public resources and ensure it receives all money it is owed. Specifically, the City should:

- Ensure the utility charges are compliant with approved rates
- Ensure it enters manual meter reads into the system for the City's monthly billings and checks them to ensure accuracy
- Maintain adequate documentation to support customer billings

City's Response

The City recognizes and acknowledges that there were weaknesses during the audit period covering 2022-2023 within the internal controls and policies that existed within the past Utility Billing process.

With regard to the overbilled accounts, this error was likely due to the ambiguity of the language of the resolutions changing rates. The language specifically states in section 5: "This Resolution shall be effective on January 1, XXXX" In fact the rates were entered into the system within the first few days in January in both 2022 and 2023. The resolution(s) did not specifically state the billing periods when the rates took effect.

In recognition of the deficiencies found by the State Auditor's Office and City Staff, the City has already instituted the following policy and procedure changes:

- *Resolutions enacting new rates will be clearly stated with noted effective dates of the rate changes and the billing period of when they take effect.*
- *Process and procedures are written to include:*
 - *All rate entries will be verified by a second employee and approved by the Clerk/Treasurer and or Mayor*
 - *Copies of all updated rate tables will be kept with the resolution allowing the changes and the Utility Billing Processing Checklist for the billing cycle impacted.*
 - *Testing of new rates will be done prior to the billing cycle impacted and test results evidencing accuracy of the rate change will be kept with the Utility Billing Processing Checklist for the billing cycle impacted.*
 - *Manually entered meter reads are now entered onto a form with noted service locations. These are verified in the system with the manual service locations and the prior months billings to ensure all manual meters have entered meter reads.*
- *Review and proposal of any rate changes will ensure the ability to validate the rate at any given service location.*

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the corrective action taken during our next 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.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Cosmopolis January 1, 2022 through December 31, 2023

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

Audit Period: January 1, 2019 through December 31, 2021	Report Ref. No.: 1032570	Finding Ref. No.: 2021-001
Finding Caption: The City lacked adequate internal controls and monitoring over the Fire Department's operations to ensure it safeguarded public funds and complied with state law.		
Background: The internal controls and policies that the City established were inadequate for ensuring the Fire Department safeguarded public funds and its purchases followed state law. As a result, the audit found the following significant internal control weaknesses: <ul style="list-style-type: none"> • The Fire Chief was responsible for reviewing and approving expenditures and submitting the invoices to City Hall for payment. The City did not ensure the Fire Department's expenditures were paid timely, procured properly, and allowable under state law and City policy. • The City lacked small and attractive asset policies, and did not ensure the Fire Department tracked and monitored these assets. 		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Thank you for the opportunity to provide input on this matter.</i> <i>As mentioned in the previous audit's response from the City, we have taken significant actions to safeguard public funds. While there was previously an agreement between the City of Cosmopolis and the Cosmopolis Volunteer Fire Association to provide fire protection services to the city, that has since been removed. Now, the Fire Department operates as a department within the City of Cosmopolis. All revenues and expenses are tracked and accounted for through the City's standing processes. The Fire Department no longer expends funds outside</i>		

of the city's processes. This includes procurement of goods and services in addition to standard expenses such as utilities. Procurement processes of the Fire Department fall within the City's processes.

As part of the new structure for the Fire Department, it was proven necessary to add a volunteer Administrative Assistant position. This position assists with processing of invoices and regularly ensuring that the Fire Department is following city processes and that the city is aware of expenses being incurred by the Fire Department. Expenses from the Fire Department require a Purchase Order to be signed by the Fire Chief prior to being processed by the Finance Department to ensure the Fire Chief is reviewing and approving all expenses for the Fire Department.

Small and Attractive equipment that is issued to personnel of the Fire Department are issued via a 'Personnel Equipment Issue' form and maintained within the personnel's file. These forms track unique identifiable numbers for all equipment issued to the personnel and require two signatures when equipment is issued, one from the personnel and one from the issuing department fire officer. Furthermore, a signature from a department fire officer is required when equipment is returned to the department. Equipment issued to personnel are inspected quarterly as part of equipment safety checks.

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, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Cosmopolis was incorporated in 1891. It is administered by a mayor-council form of government. There are five elected Council members and an independently elected Mayor. The City's 13 employees provide a full range of municipal services to its 1,660 citizens including: water, sewer, police, Municipal Court, fire, street maintenance, parks and recreation, permits and inspections, as well as general administrative services. The City had revenues in 2022 of \$4.2 million and \$3.5 million in 2023.

Contact information related to this report

Address:	City of Cosmopolis P.O. Box 2007 Cosmopolis, WA 98537-0707
Contact:	Kerry Barr, Clerk/Treasurer
Telephone:	(360) 532-9230
Website:	http://www.cosmopoliswa.gov/

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Cosmopolis at <https://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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