



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Town of Hatton

For the period January 1, 2021 through December 31, 2024

Published May 6, 2025

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Office of the Washington State Auditor Pat McCarthy

May 6, 2025

Mayor and Town Council
Town of Hatton
Hatton, 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. This report highlights significant risks presented by the Town's lack of appropriate financial safeguards. The risks we identified have been realized, as the Town experienced a financial loss, detailed in 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 take advantage of informational resources available to help you improve your financial oversight, which will allow you to better serve your community and to earn public trust.

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, Town operations did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the Town 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 Town could make improvements. These recommendations are included with our report as findings.

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 Hatton from January 1, 2021 through December 31, 2024.

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, 2024, 2023, 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:

- Accounts payable – general disbursements and credit cards
- Payroll – gross wages
- Tracking and monitoring of theft sensitive assets, such as equipment and vehicles
- Accounts receivable – billing and collections
- Cash receipting – timeliness and completeness of deposits
- 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 Hatton January 1, 2021 through December 31, 2024

2024-001 The Town did not have adequate controls over monitoring operations and financial activities to ensure the safeguarding of public resources and compliance with state law.

Background

The Town Council, Mayor and management are responsible for establishing internal controls that provide reasonable assurance the Town is safeguarding public resources and ensure compliance with state law and its own policies. Management is also responsible for the integrity and retention of the original receipts, invoices and other documents needed to support the validity of every financial transaction. This requirement extends to all accounting entries.

An elected, five-member Town Council and separately elected Mayor govern the Town, which had total expenditures of \$116,145, \$106,587, \$188,917 and \$337,471 in fiscal years 2021, 2022, 2023 and 2024, respectively. The Town also had revenues totaling \$113,996, \$104,223, \$169,908 and \$357,280 in fiscal years 2021, 2022, 2023 and 2024, respectively.

The Town employs a Clerk-Treasurer to oversee and manage daily operations, including cash handling, accounts payable and receivable, payroll, the reconciliation of all Town financial accounts, and financial reporting to the Council.

Description of Condition

Our audit found the Town lacked effective internal controls for ensuring it safeguarded public funds and complied with state law. We identified the following issues with the Town's controls over accounts payable.

The Town lacked internal controls to ensure it obtained documentation to support the validity of disbursements. Our audit of purchases found inadequate support for payments totaling \$235,615.14.

Cause of Condition

The Town's Clerk-Treasurer and Mayor position turned over five and two times, respectively, between 2021 and 2024. The turnover made it difficult for the Town to ensure new staff received proper training to effectively monitor financial activities.

The Council did not adequately oversee and review disbursements to ensure expenditures were supported, allowable and approved, or to ensure public resources were adequately monitored to safeguard against misappropriation. The Town also did not ensure staff performed periodic, accurate reconciliations between accounting records and bank records, including cash receipts and utility billing adjustments.

Effect of Condition

A former Town employee notified our office regarding a potential loss. We investigated and identified two separate losses of public funds from disbursements and unauthorized uses of Town equipment, as noted under the Related Reports – Special Investigations section of this report.

Inadequate internal controls over the Town's activities and a lack of proper oversight resulted in a combined \$79,252 misappropriation of public funds from December 14, 2022 to November 21, 2024 and \$144,604 in questionable transactions between October 25, 2022, and September 20, 2024, that the Town did not detect.

Recommendation

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

- Ensure someone independent of the payment processes performs a secondary review of all Town bank statements to ensure payments are supported and are legitimate expenditures of the Town
- Complete monthly bank reconciliations promptly for Council's review
- Develop and implement policies and procedures over the Town's essential financial functions including vendor and payroll disbursements and bank reconciliations

Town's Response

The Town of Hatton would like to thank the Washington State auditor's team for helping us execute this audit. We are very happy to see this concluded and move forward. We, with the recommendations from the audit team, have placed some internal controls that will prevent the town from being in this position from here on out. We are striving to remedy all the issues and be in compliance with state law.

Auditor's Remarks

We thank the Town for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the Town's corrective action 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

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

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Town of Hatton January 1, 2021 through December 31, 2024

2024-002 The Town's governing officials and management did not follow state laws for the Open Public Meetings Act and annual report filing when performing required government functions.

Description of Condition

The Town Council, Mayor and town management did not follow state laws when performing essential functions. We identified the following concerns with the Town's compliance with the Open Public Meetings Act (OPMA) and requirements for annual report filing.

Open public meetings

The Town did not ensure it met OPMA requirements. OPMA requires minutes of all regular and special meetings to be promptly recorded and open to public inspection, because people rely on the meeting information to make informed decisions. State law also requires the governing body's presiding officer to announce the purpose for excluding the public from an executive session.

Our audit found the Town did not post agendas or meeting minutes online, and its meeting minutes lacked a significant record of business conducted during open public meetings. Specifically:

- Meeting minutes were not available for 10 meetings between January 1, 2021, and December 31, 2024.
- The Town held 12 executive sessions without referencing an allowable reason per state law.
- Meeting minutes did not include payment details such as vendor or total payment amounts for 35 meetings.
- Agendas were not available prior to 37 meetings.

By not posting meeting minutes promptly for public inspection, the Town did not comply with the OPMA. When the Town does not keep meeting minutes, it has no official record of what business the Council conducted. This limits transparency and the public's access to information about the Town's business discussions and official decisions.

Annual reporting

Federal and state agencies, the Town Council, Mayor, and the public rely on the information included in financial reports to make decisions. The Town is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable. State law (RCW 43.09.230) requires the Town to submit an annual financial report with accurate, summarized financial information and supporting schedules to the State Auditor's Office within 150 days after the end of its fiscal year. The Town has not submitted annual reports since 2018.

Cause of Condition

Town leadership and management experienced significant turnover during this period and did not have an adequate understanding of state laws, including those that require open public meetings and filing annual reports with the State Auditor's Office.

Effect of Condition

The Council's disregard for state laws and the resulting lack of transparency limits the public's knowledge and understanding of Town business. The Council's insufficient knowledge of state laws it must follow hinders its ability to implement controls and policies to help ensure it follows those laws.

Delays in the availability of complete financial reports prevent officials, the public and other interested parties from obtaining timely information. Such delays also hinder public transparency and our Office's efforts to compile statistical and financial information that the Legislature and other parties use.

Recommendation

We recommend the Town:

- Improve documentation of meetings and post agendas and minutes online to ensure it informs the public of the Council's actions when spending funds, as state law requires
- Improve documentation of executive sessions in meeting minutes to ensure it conducts sessions for allowable purposes per state law
- Establish internal controls to ensure accurate, complete and on-time financial reporting in accordance with state law

Town's Response

The Current Clerk is taking online RCW Classes and the recommended Risk Management Service Agency (RMSA-U) courses from the Association of Washington Cities (AWC) insurance company.

Auditor's Remarks

We appreciate the steps the Town is taking to resolve this issue. We will review the conditions during our next audit.

Applicable Laws and Regulations

RCW 42.30, Open Public Meetings Act.

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics.

Budgeting, Accounting and Reporting System (BARS) Manual 3.1.3, Internal Controls

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS****Town of Hatton
January 1, 2021 through December 31, 2024**

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

Audit Period: 01/01/2018-12/31/2020	Report Ref. No.: 1029483	Finding Ref. No.: 2020-001				
Finding Caption: The Town lacked adequate internal controls over financial reporting to ensure compliance with state reporting requirements.						
Background: The Town did not submit the required annual reports to our office within 150 days of fiscal year-end for 2019 and 2020. The Town has yet to submit either report. This issue was reported as a finding in the prior three audits.						
Status of Corrective Action: (check one) <table><tr><td><input type="checkbox"/> Fully Corrected</td><td><input type="checkbox"/> Partially Corrected</td><td><input checked="" type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The Current Clerk is taking online RCW Classes and the recommended Risk Management Service Agency (RMSA-U) courses from the Association of Washington Cities (AWC) insurance company.</i>						

Audit Period: 01/01/2018-12/31/2020	Report Ref. No.: 1029483	Finding Ref. No.: 2020-002
Finding Caption: The Town lacked internal controls and monitoring over operations and financial activities to ensure the safeguarding of public resources and compliance with state law.		
Background: The Town lacked effective internal controls for ensuring it safeguarded public funds and complied with state law. Specifically, the Town did not have: <ul style="list-style-type: none"> • Adequate supporting documentation to determine the validity of purchases, including general debit card purchases, electronic funds transfers (EFTs), check payments and Automated Teller Machine (ATM) withdrawals • A process for reviewing financial operations at Council meetings and could not provide records of Council-approved expenses for 2019 or 2020 • Procedures for ensuring all funds collected were receipted and deposited timely All of these issues were previously reported in a fraud investigation report.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input checked="" type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>We have placed some internal controls that will prevent the town from being in this position from here on out. We are striving to remedy all the issues and be in compliance with state law.</i>		

RELATED REPORTS

Special investigations

We issued two fraud investigation reports on activities at the Town. Those reports are available on our website, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE TOWN

The Town of Hatton, incorporated in 1907, operates under a mayor-council form of government. The Town has an elected, five-member Council and Mayor. The Town has two part-time employees and provides water service, fire prevention and a park to a population of less than 200 people. The Town's revenues average about \$186,350 and expenditures average about \$187,280 per year.

Contact information related to this report

Contact:	Carmen Garcia, Clerk Treasurer
Telephone:	(509) 701 - 0576
Website:	www.mrsc.org/cityprofiles/cityprofile.aspx?id=95

Information current as of report publish date.

Audit history

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