



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

**Accountability Audit Report**  
**City of Sumas**

**For the period January 1, 2017 through December 31, 2018**

**Published December 2, 2019**

**Report No. 1025200**





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

December 2, 2019

Mayor and City Council  
City of Sumas  
Sumas, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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.

The attached comprises 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 we value your cooperation during the audit.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, City operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the City could make improvements. These recommendations are included with our report as a finding.

In addition, as referenced above, we also noted certain matters that we communicated to City management and Council in a letter dated November 22, 2019, related to the cost allocation plan at the City. We appreciate the City's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of the City of Sumas from January 1, 2017 through December 31, 2018.

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 State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the years ended December 31, 2018 and 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Cost allocation plan – equitable distribution of indirect costs
- Accounts payable – general disbursements, credit cards, travel expenditures, electronic funds transfers, and employee reimbursements
- Payroll – wages, benefits, and leave accruals
- Banking activity – segregation of duties, oversight and reconciliation process

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-001 The City lacked adequate internal controls and monitoring over significant accounting systems to ensure safeguarding of public resources.**

#### ***Background***

The City provides general administrative services, including water, sewer, electric, and cable television. The Board appoints management to oversee the City's daily operations as well as its 14 full-time employees. For fiscal years 2017 and 2018, the City operated on annual budgets of \$7.9 million and \$8.1 million, respectively.

Citizens rely on the City to establish effective internal controls to safeguard public resources and to ensure compliance with laws and policies.

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

In the prior two audits, we recommended the City strengthen its oversight and monitoring over cash receipting and bank reconciliations. The current audit identified continuing weaknesses with the City's internal controls, such as limited segregation of duties. In that weakness, one employee had unlimited access to significant accounting systems without adequate independent oversight.

We identified the following deficiencies in internal controls:

- *Utility billing adjustments and voids:* The City did not perform a detailed independent review of account adjustments to ensure adjustments and voids complied with City policies, and were correctly calculated and adequately supported. In addition, City staff did not consistently document explanations for adjustments on customer accounts.
- *Bank reconciliations:* The City did not reconcile cash activity to bank records for all City accounts. In addition, reconciliations were not performed or reviewed by an independent person.
- *Disbursements:* The City lacked adequate policies and procedures over general disbursements, including petty cash replenishments, employee mileage and travel reimbursements, and EFT transfers. For petty cash, the same employee was responsible for using, reconciling, and replenishing cash without independent review.

- *Payroll:* Employees followed a payroll policy that has not been approved by City Council. No one performed an independent review of payroll, including leave balances and accruals, to ensure it was correctly calculated and supported.

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

The City did not dedicate sufficient resources to address prior audit recommendations and establish strong internal controls or implement written policies and procedures that clearly outline adequate controls, reconciliation, and review expectations.

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

Without adequate internal controls, public funds are at risk of misappropriation, misuse or loss that would not be detected by management promptly, if at all.

Our audit specifically noted the following:

- *Utility billing adjustments and voids:* None of the 11 transactions tested was properly supported or independently reviewed and approved. Without supporting records, we could not determine the propriety of the voided transactions.
- *Bank reconciliations:* Reported ending cash did not tie to bank records. The City overstated ending cash by \$2,881 for fiscal year 2017, and understated ending cash by \$967 for fiscal year 2018. In addition, the City issued manual checks for reasons other than those approved by resolution, and issued one check with no payee.
- *Disbursements:* Of the tested transactions, the City did not adequately support two travel reimbursements, totaling \$1,107, and petty cash records. Without documentation, we could not determine if the expenditures were for purposes allowed under City policy or state law. In addition, the former Clerk-Treasurer deposited two personal checks, totaling \$101,400, into the City's clearing account. The following day, she transferred the same amount of City funds to her personal account with no independent review or approval.
- *Payroll:* The former Clerk-Treasurer converted 127.5 hours of vacation leave to sick leave without any documentation or evidence of approval. She subsequently received a payout that included the 127.5 hours of sick leave.

## ***Recommendations***

We recommend the City:

- Provide written policies and procedures that clearly outline adequate controls, reconciliation and review expectations
- Adequately segregate duties or monitor the cash receipting, banking and disbursement processes
- Ensure transactions are adequately supported and independently reviewed and approved

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

*The City appreciates the work of the State Auditor's Office, and for the recommendations they provided during this recent audit. The City takes this seriously and is dedicated to making improvements to our internal controls to ensure we are safeguarding public resources.*

*The City recently experienced turnover in the Clerk/Treasurer position and not all prior recommendations were able to be fully implemented during this time.*

*The City has already started to make improvements to our internal controls by updating procedures and documenting the review and approval process of our payroll, utility adjustments, voids, and general disbursements. The City is in the process of reconciling all bank accounts and having them reviewed by the Mayor and Finance Committee members.*

*The City has made it a priority for creating financial policies in 2020 including a Cost Allocation Plan, Credit Card Program, Travel Expenditures, and Segregation of Duties.*

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

We appreciate the City's commitment to resolve the finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## ***Applicable Laws and Regulations***

*Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.*

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 42.24.115 – Municipal corporations and political subdivisions – Charge cards for officers and employees' travel expenses.

BARS 3.1.4 – Original Supporting Documentation

See Chapter 434-662 WAC for records retention regulations for electronic records.



## 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>.

## INFORMATION ABOUT THE CITY

The City of Sumas was incorporated in 1891 and currently serves 1,604 citizens in Whatcom County. The City provides general administrative services including water, sewer, electric, cable television, police, Municipal Court, cemetery and parks.

An elected, five-member Council and an independently elected Mayor govern the City. The Council appoints management to oversee the City's daily operations as well as its 14 full-time employees. For fiscal years 2017 and 2018, the City operated on annual budgets of \$7.86 million and \$8.11 million, respectively.

<b>Contact information related to this report</b>	
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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 Sumas at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
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