



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of North Bonneville

For the period January 1, 2021 through December 31, 2022

Published February 12, 2024

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

February 12, 2024

Mayor and City Council
City of North Bonneville
North Bonneville, 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 utility billing that we communicated to City management and the Mayor and City Council in a letter dated February 5, 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 North Bonneville from January 1, 2021 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 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:

- Financial condition – reviewing for indications of financial distress
- Utility accounts receivable – billing, collections, relief programs, and deposit refunds
- Accounts payable – general disbursements and credit cards

- Open public meetings – compliance with minutes, meetings and executive session requirements
- Cash receipting – completeness of deposits
- Annual report filing – timeliness and completeness

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of North Bonneville January 1, 2021 through December 31, 2022

2022-001 The City lacked adequate internal controls for ensuring accurate accounting and financial reporting, compliance with state law, and effective monitoring of its financial position.

Background

An elected City Council and Mayor govern the City, and a Chief Administrative Officer, who serves as the Clerk/Treasurer, is responsible for financial transactions. In fiscal year 2021 and 2022, the City had \$1.7 million and \$1.5 million in operating revenues, respectively. The City's primary revenue sources are property and sales taxes and utility billings.

Federal and state agencies, the City Council, and the public rely on the information included in financial statements and reports to make decisions. Management is responsible for designing, implementing and maintaining controls adequate to provide reasonable assurance that City resources are safeguarded against misuse or misappropriation, and that City officials have accurate financial information upon which to base their decisions.

Description of Condition

The City does not have a process to ensure its financial activity follows state laws and is recorded accurately in accordance with the *Budgeting, Accounting and Reporting System* (BARS Manual). Our audit identified the following concerns relating to the City's payroll expenditures, budget compliance, cash reconciliations, and the Sewer Fund's financial condition.

Payroll expenditures

The City estimates the percentage of time each employee spends working on fund activities based on its knowledge and experience with its day-to-day functions. However, the City cannot support the allocations for five employees whose payroll hours were charged to multiple funds to show that the costs were fair, equitable, valid and reflected the services provided.

Budget compliance

The Council annually approves a budget determining the City’s legal spending limits. Under state law (RCW 35A.33.120), spending should not exceed this limit without a Council-approved budget amendment. The City did not monitor its budget or available cash and investments balances when obligating expenditures to ensure the City was spending within its authorized appropriations and resources. The table below shows the City overspent approved and amended budgets for two funds in 2021 and one fund in 2022, totaling \$54,893 and \$25,207, respectively.

Fund	Amount overspent in 2021	Amount overspent in 2022
General Fund	\$39,179	-
Street Fund	\$15,714	-
Sewer Fund	-	\$25,207

Additionally, the City reported a negative cash and investments balance for the Street Fund of \$15,745 in 2021. When expenditures in a fund exceed the amount of available resources, the City is using resources from other funds to continue operations without formally making an interfund transfer or establishing an interfund loan. The City can only make transfers from unrestricted sources, such as the General Fund. The Council must approve interfund loans by a resolution or ordinance that includes a payment plan and sets a reasonable interest rate to be paid to the lending fund. Interfund loans that are not repaid in a timely manner represent an unallowable diversion of funds.

Cash reconciliations

The City held three bank and investment accounts with combined year-end balances of about \$1.2 million and \$1.3 million in 2021 and 2022, respectively. The City has not been able to reconcile its financial activity from its accounting software to bank records for several years.

Sewer Fund

For the prior six audits, we have communicated financial condition recommendations to the City with specific concerns regarding the Sewer Fund. The City has taken steps to try to address the recommendations, but we continue to note the following concerns that affect the fund’s financial position:

- The sewer infrastructure is aging, and the City anticipates needing to invest in new infrastructure in the near future, including two lift stations with estimated replacement costs of at least \$350,000 each. The City wants to

finance some of these improvements through grants and state loans, but officials say the City no longer qualifies for some of the grants. In addition, grants might require matching contributions from the City, and loans require full repayment plus interest. The City does not have a plan to finance these obligations.

- Though the City raised utility rates during the audit period, it has not been able to perform a comprehensive rate study to determine the full extent of funding needed to cover current and future costs of the sewer system.
- While the City had improvements to follow up on past due accounts, it has not implemented a process to monitor outstanding balances.

Cause of Condition

The City has limited staffing, and it relies on the City Administrator to maintain accurate accounting records and provide information to the Council. The Mayor and City Council have not taken an active role in ensuring the City's financial information is accurate and complete.

While we have made recommendations in the past several audits related to the City's need to improve internal controls and monitoring of its financial position, management has not dedicated the resources necessary to address the deficiencies.

Effect of Condition

The City is unable to effectively monitor its financial condition. Because of the issues identified, the audit could not determine if the City's financial position has improved or declined. We attempted to reconcile cash and investments to determine whether the City's reported ending cash and investments balances as of December 31, 2022, were accurate. The audit found the City's financial records did not reconcile, with a difference between \$10,000 understated to \$55,500 overstated.

Without accurate and complete financial records, the City is unable to make informed financial decisions. It also risks not being able to meet future financial obligations or continue operations at current service levels.

Recommendation

We recommend the City ensure it accounts for financial activity accurately within its accounting system in accordance with the BARS Manual and state law. The City should prioritize reconciling its activity from the accounting system to the bank activity, and ensure it follows up on and resolves all variances.

In addition, we recommend the City follow state law. To do this, the City should:

- Maintain appropriate records to support the amount of employees' payroll hours charged to each department and fund, and how it was determined to be fair, equitable, valid, and reflective of the services provided
- Obligate expenditures only when funds have the available budget and resources to pay for the transactions, and use restricted resources only for allowable purposes
- Establish interfund loans that include appropriate interest rates and repayment plans for funds with negative cash and investments balances to avoid the permanent diversion of restricted resources

Finally, we recommend the City's elected officials and management establish a formal, written comprehensive plan to address the City's financial condition and closely monitor financial operations to ensure it can meet its financial obligations.

City's Response

Payroll:

The city has calculated payroll based on percentage estimates per department of the year prior when developing annual budgets. We will begin taking samplings of timesheets quarterly to better track actual time spent in each department for more accuracy in determining labor percentages per fund for the annual budgets.

Budget Compliance:

The SAO audit report reflects 2022 overspending of the Sewer Fund by \$25,207 without a Council-approved budget amendment. At the last council meeting of 2022, Council approved the Mayors Declaration of Emergency Resolution # 561 due to a snow and ice storm that affected the city the last week of the year, authorizing additional money to be spent to deal with the emergency. The direct additional expenses for the storm cleanup were not known until the 13-month expenditure report had come out in January 2023. This by law, did not allow an adjustment to the Budget Amendment Ordinance for 2022. The city did inform and pass budget amendments and a Declaration of Emergency Resolution through council for the overages in accordance with RCW's.

Cash reconciliations:

The CAO with occasional assistance from the Mayor and council has attempted to reconcile cash accounts since 2018 with little success due to outstanding or mis entered revenues, expenditures, and transfers. The Vision software system would not allow for deletion or correction of several items, leaving a constant inaccurate balance. In 2023 we began implementing new software in hopes to better reconcile

our accounts. Council has just approved a contract in January 2024 for a CPA to assist in cleaning up and reconciling accounts to finally remediate the issues and perform ongoing cash reconciliations.

Sewer Fund:

The city had been working with the RCAC to complete an updated water system plan and rate study, however, has not heard back in over a year despite a multitude of emails and phone calls sent to the agency. The city's engineer is ready to put together our updated water system plan once we receive word from the RCAC. The sewer infrastructure has slowly been upgraded and continues to do so. The city also put forward a 5-year water and sewer infrastructure update plan and has worked and continues to work to build reserves to allow for match or partial funding of the outdated lift stations. The CAO is working with MCEDD and the EDC to obtain grant or loan funding for the replacement of the oldest lift station first. Regarding past-due utility accounts, the Utilities Clerk worked with WAGAP and helped recover nearly \$10,000 in arrears accounts payments in 2022. With the advice of the city attorney, older arrears accounts in the sum of \$14,028 were sent to collections. An aggressive late fee and shutoff notice policy was implemented. Combined water late fees totals for years 2019, 2020 and 2021 equaled \$3450.18. In 2022 alone, water account late fees totaled \$6,481.81 for the fiscal year approximately 47% higher than the three previous years combined. The city has been working aggressively since 2022 to address and resolve past due utility accounts with the number as of now being a fraction of the years prior to 2022. The city has begun processes to monitor remaining outstanding balances to ensure proper follow-up and collection.

Auditor's Remarks

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

Applicable Laws and Regulations

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

Budgeting, Accounting and Reporting System (BARS Manual) – Accounting, Accounting Principles and General Procedures, Internal Control

RCW 35A.33.120 – Funds – Limitations on expenditures – Transfers and adjustments.



City of
NORTH BONNEVILLE

P.O. Box 7 North Bonneville, WA 98639(509)427-8182

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of North Bonneville
January 1, 2021 through December 31, 2022**

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

Audit Period: 2019 – 2020	Report Ref. No.: 1030112	Finding Ref. No.: 2020-001
Finding Caption: The City did not monitor its financial activity or comply with state law, placing it at risk of not meeting its financial obligations or providing services at current levels.		
Background: The City had not developed a comprehensive plan to monitor financial condition and address future obligations to ensure it can meet future obligations and maintain operations.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Immediately following the completion of this audit, in March of 2022, the city adopted by resolution #558 a Purchasing & Procurement Policy and in March of 2023 the city adopted resolution #563, creating a new Financial Policy. Both of these documents describe our handling of cash and spending. Furthermore, the city replaced our financial and utility software due to issues with the old program’s accuracy and service. Council approved new software and the city began implementation in 2023. The financial software chosen is more in-depth, including GL categories and a double entry system. The city had decided to hire a CPA beginning this year to work with the system’s bank to GL reconciliation and follow up with cash reconciliations. With the CPA, the city anticipates reconciliations to be accurate moving forward.</i>		

INFORMATION ABOUT THE CITY

The City of North Bonneville serves approximately 1,042 citizens in Skamania County. It is administered by a mayor-council form of government with five elected Council members and an independently elected Mayor.

In 2021 and 2022, the City had \$1.8 million and \$1.6 million in operating revenues, respectively. The City provides an array of services including water, sewer, fire control, parks and recreation, and planning and building services.

Contact information related to this report	
Address:	City of North Bonneville P.O. Box 7 North Bonneville, WA 98639
Contact:	Deanna Adams, CAO
Telephone:	(509) 427-8182
Website:	www.northbonneville.net

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of North Bonneville 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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