WHATCOM COUNTY, WASHINGTON
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Missing At Whatcom County

Our audit of the county's purchasing and voucher systems revealed that at least $748.13 in public funds was misappropriated by the former chief accountant in the auditor's office. Accounting records were falsified and destroyed in an attempt to conceal the loss.

The funds were misappropriated as the result of the former chief accountant having nearly unlimited access to all functions of the voucher system. A false purchase order was prepared on the former chief accountant's computer to purchase an Epson Action Laser 1500 Printer. Then the expenditure was moved into a previous month's expenditures by using a past voucher number. According to the county's computer records a warrant was then prepared by the former chief accountant on December 8, 1993, using his unique log-in password. This warrant was then used, according to the false purchase order, to purchase the printer from a local vendor. The asset records of the county indicate the county does not normally purchase this type of printer and the county was unable to locate the printer purchased.

The former chief accountant left the county's employment on February 4, 1994, for Medford, Oregon. We were unable to interview the former chief accountant.

RCW 43.09.200, Local government accounting **)** Uniformed system of accounting states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class . . .
>
> The accounts shall show the receipt, use and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

RCW 42.20.070, Misappropriation and falsification of accounts by public officer, states in part:

> Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district,

who:

> (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
>
> (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or
>
> (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account . . . shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

As noted during our 1993 audit, the county's purchasing and voucher system controls were weak. The county allowed the former chief accountant access to nearly all aspects of the purchasing and voucher systems and approval authority for payment of departmental invoices. The only oversight the county had was the budget status report which, as noted above, could be circumvented as well. The nearly unlimited access, approval authority, and lack of oversight resulted in the loss of $748.13.

We recommend the county seek recovery of the $748.13 from the former chief accountant. We further recommend the county review current practices and modify them to ensure proper oversight of personnel in areas where lack of segregation of duties exists and, if possible, review access to the system and ensure only those individuals who need access have it.

2. The County Should Comply With The Statutory Requirements For Revaluation Of Real Property

The Whatcom County Assessor adopted a four-year real property revaluation schedule where physical inspections are to be cycled over a four-year period. This schedule was implemented due to the inability of the county's system to revalue property on a continual basis.

The county has not been able to meet the cycled revaluation requirements. Furthermore, in 1994, the Department of Revenue would not sign off on the schedule because the county had not met the requirements noted below.

RCW 84.41.030 Revaluation program to be on a continuous basis **)** Revaluation schedule, states in part:

> Each county assessor shall maintain an active and systematic program of revaluation on a continuous basis, and shall establish a revaluation schedule which will result in revaluation of all taxable real property within the county at least once each four years and physical inspection of all taxable property within the county at least once each six years.

RCW 84.41.041 Physical inspection and valuation of taxable property required **)** Adjustments during the intervals based on statistical data, states in part:

> Each county assessor shall cause taxable real property to be physically inspected and valued at least once every six years in accordance with RCW 84.41.030, and in accordance with the plan filed with and approved by the department of revenue. Such revaluation plan shall provide that a reasonable portion of all taxable real property within a county be revalued and these newly-determined values placed on the assessment rolls each year . . . .

To accomplish these requirements, RCW 84.41.050 Budget, levy, to provide funds, states in part:

> Each county assessor in budgets hereafter submitted, shall make adequate provision to effect county-wide revaluation as herein directed. The several boards of county commissioners in passing upon budgets submitted by the several assessors, shall authorize and levy amounts which in the judgement of the board will suffice to carry out the directions of this chapter. [Note: Whatcom County is a charter county with the legislative authority vested in a county council having the same authority as the board of county commissioners.]

According to the Whatcom County Assessor, the county has not been able to meet the annual requirements due to a lack of manpower to handle both the statute requirements and the new construction assessments.

The result of the assessor not meeting the statute requirements is not all taxable property on the tax rolls is assessed at current market values. In effect, the distribution of taxes levied to real property parcels is not in proportion with current valuation. This results in some property owners paying less than their fair share of property taxes, while others pay more.

We recommend the county take the necessary steps to accomplish the statutory

requirements for revaluation of real property and ensure all property owners pay their fair share of property taxes.

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Schedule Of Federal Findings

1. The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements And The Fixed Asset Control System Should Be Strengthened

As noted in prior audit reports, the county's fixed asset system had the following control weaknesses:

a. The county's fixed asset records do not identify the source of funds used to acquire assets, who holds title to the property, or information on the disposition of the assets.

b. The county's system does not to ensure all assets are tagged to identify them as county property.

c. The county did not perform a complete physical inventory of fixed assets during 1992, 1993, and 1994.

d. The county does not maintain an accurate subsidiary fixed asset ledger with which to reconcile yearly physical inventory counts.

e. The county lacks a system for approving and recording fixed assets determined to be ready for disposal and often does not delete fixed assets from the detailed accounting records upon disposal. In addition, the county does not have an adequate system for reducing the related account in the general fixed asset account group when assets are contributed to the equipment rental fund.

At the time of our audit the county had not addressed the weaknesses noted above.

RCW 43.09.200, Local government accounting **)** Uniformed system of accounting, states in part:

> The accounts shall show the receipt, use, and disposition, of all public property . . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 7:

> Accountability for fixed assets is required of all local government, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . . .

The BARS manual. Volume 1, Part 3, Chapter 7, page 17 further states:

> An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, for any fixed assets purchased by the county using federal funds, the "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB), Subpart C, Section .32(d), Management Requirements, states in part:

> (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Article IV, Section 1.10.140 of the Whatcom County Code states in part:

> Each county department head shall submit annually to the county purchasing agent an inventory, current as of a date set by the property management committee, of all county-owned personal property . . . .

The county did not allocate sufficient resources to implement the necessary internal controls and accounting procedures to properly account for fixed assets. The county has implemented a new general ledger system but has not yet brought the fixed asset system on-line.

We consider the conditions reported above to be a material weakness in the internal control structure.

The county's lack of adequate accounting procedures and internal controls over fixed assets results in the possibility of errors and irregularities occurring and not being detected in a timely manner, if at all. In addition:

a. The county is unable to identify fixed assets acquired with federal funds and the final disposition of such property, thereby failing to comply with requirements of the "Common Rule". These deficiencies can impair the county's eligibility for future assistance.

b. Without an adequate system to tag assets, the county loses control over the accountability for those assets.

c. Failure to perform physical inventories limits the county's ability to determine if all assets in the accounting records are still in the county's possession.

d. Without maintaining an accurate subsidiary ledger, the county is unable to ensure assets are recorded properly and are accurately reported in their financial statements.

e. Without adequately tracking deleted assets, the county cannot determine the reason for missing assets (i.e stolen, sold, etc.) and cannot determine if assets are

accurately reported on their financial statements.

We recommend county officials strengthen the fixed asset internal control system to ensure county property is adequately safeguarded and accounted for. We further recommend county officials develop a fixed asset accounting system capable of demonstrating compliance with federal grantor requirements.

2. The County's Accounting System Should Identify Grant Expenditures By Grant Program For The Whatcom County Health Department

In prior audit reports, we noted the county had not identified federal and state funded grant expenditures in the accounting records by grant program. During the 1994 audit, we noted the county had corrected this problem for most of the departments, but had not addressed this issue for the health department. The health department's grant expenditure identification is available only at the health department.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by U.S. Office of Management and Budget (OMB), Subpart C, Section 20(b)(2), Accounting Records, states:

> Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

In addition, the *Budgeting, Accounting, and Reporting System* (BARS) manual, prescribed by the Washington State Auditor's Office, Volume 1, Part 3, Chapter 5, page 3, states:

> At the inception of a grant . . . one or more project codes shall be assigned locally to identify the particular grant. This coding must be incorporated into the basic coding structure the municipality uses to identify all its transactions.

County officials are currently working to include the health department in their centralized grant accounting system and expect this addition to occur during fiscal year 1996.

Without centralized, specific identification of grant expenditures, the county is unable to ensure all health department grant expenditures are identified and included in related financial reports.

We consider the condition reported above to be a material weakness in the internal control structure.

We again recommend county officials implement procedures which enable grant financial transactions to be identified in the county's centralized financial accounting system.

3. The County Should Strengthen Controls Over The Purchasing And Voucher Systems

During our audit of the purchasing and voucher systems, we noted the following weaknesses:

a. Purchase orders and requisitions were not always completed as required by county policy.

b. Invoices approved for payment were not properly reviewed. We noted several invoices with clerical errors and erroneous billing rates which were approved by authorized personnel.

Whatcom County Executive Order 9-18, Purchasing Policy, states in part:

> a. Purchase order: A purchase order authorizes a seller to deliver goods with payment to be made later . . . A purchase order shall be issued before making a purchase, except as noted in section 4 below . . . .

Section 4 exempts only prepaid items, interfund purchases, utility charges, taxes and assessments, travel reimbursements, election ballots, and legal notices from the requirement.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB), Subpart C, Section 20(b)(2), Accounting Records, states:

> Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

The county's lack of oversight for compliance with county policy resulted in transactions occurring without the required requisitions, purchase orders, and proper review of vouchers. Without the requisitions, purchase orders, and proper review of invoices, the county increases the likelihood errors and irregularities will occur and not be detected in a timely manner, if at all.

We consider the conditions reported above to be a material weakness in the internal control structure.

We recommend the county follow its policies and procedures and ensure each purchase is supported by a requisition and purchase order and each invoice is properly reviewed prior to approval for payment.