



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Mabton

For the period January 1, 2021 through December 31, 2023

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Office of the Washington State Auditor
Pat McCarthy

May 15, 2025

Mayor and City Council
City of Mabton
Mabton, Washington

Report on Accountability

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. This report highlights significant risks presented by the City's lack of appropriate financial safeguards. The risks we identified have been realized to the City's financial loss, as detailed in the separate fraud report.

We appreciate your cooperation during this audit, which includes several recommendations to prevent further losses. I strongly encourage you to follow those recommendations and to diligently work to meet the expectations of state law, the Washington public, and your own community.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Related Reports.....	19
Information about the City.....	20
About the State Auditor's Office.....	21

UDIT 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 did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the City 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 City 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 City of Mabton from January 1, 2021 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, 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:

- Annual report filing – timeliness and completeness
- Budget compliance
- Cash receipting – timeliness and completeness of deposits, voids and adjustments at City Hall
- Tracking and monitoring theft sensitive assets such as fuel
- Accounts payable – general disbursements, credit cards and electronic funds transfers
- Accounts receivable – billing and adjustments of utilities
- Payroll – gross wages and electronic funds transfers
- 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

City of Mabton January 1, 2021 through December 31, 2023

2023-001 The City lacked adequate internal controls over cash receipting and utility billings to safeguard public resources, resulting in a loss of public funds.

Background

The City of Mabton serves about 1,965 residents in Yakima County. A citizen-elected, five-member Council and a Mayor govern the City, which operates on a budget of approximately \$5 million annually and provides services including police, water, sewer and solid waste.

The *Budgeting, Accounting and Reporting System* (BARS) Manual requires governments to develop internal controls that adequately safeguard public resources. As such, management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance that it properly receipts and deposits all funds collected and that utility billings are properly calculated. Additionally, state law (RCW 43.09.240) requires funds to be deposited to the treasurer of the local government within 24 hours of receipt.

Description of Condition

The City's design and application of internal control processes over cash receipting and billings processes were insufficient and did not adequately safeguard payments it received. As a result of these deficiencies, the City did not ensure the accounting and financial records were an accurate representation of its activity. In addition, it did not ensure it collected, accounted for and deposited all money intact nor verify it billed customers properly. Specifically, we identified the following control deficiencies:

Cash receipting

- The City did not reconcile bank and accounting records promptly. Additionally, City Hall did not perform an on-time or independent review of these reconciliations to verify that all funds collected were recorded and deposited intact within 24 hours.

- The employee responsible for reconciling daily cash receipts was also responsible for bank deposits. All cashiers were able to adjust receipts without any independent review. Adequate segregation of duties is necessary to reduce the risk of misappropriation.
- Multiple cashiers had access to and performed cash handling procedures from the same cash drawer.

Utility billing

- The City did not verify that employees properly entered all manual meter readings into the billing system or that they properly calculated utility billings according to council approved rates.
- Several City Hall employees had the ability to adjust utility accounts without adequate monitoring to verify adjustments were for legitimate purposes or properly supported.
- The City lacked adequate internal controls to ensure that it followed its policy for collecting delinquent accounts, issuing late fees, shutting off water or filing liens.

Cause of Condition

The City experienced significant turnover in staff responsible for cash receipting and billing. Staff did not have the necessary experience or training for understanding the proper controls over segregation of duties and effective oversight of cash handling and billing procedures.

Effect of Condition

Inadequate internal controls over the City's activities and lack of proper oversight increase the risk management could not detect quickly, if at all, a loss or misappropriation of public funds. Specifically, we found the following:

Cash receipting

- The City did not fully reconcile bank statements for 2022 until February 2025, and has not fully reconciled bank statements for 2023 and 2024.
- In October 2024, the City had \$453 in cash and an undeposited check for \$115, dated June 14, 2024, in its safe that had no payee listed. The City did not have documentation to support these funds.

- The City receipted donations for a community event totaling \$4,500 but did not deposit the funds to the bank and instead used the funds to pay vendors for the event.
- The City did not track and record tax revenue in the accounting system that it had electronically received from Yakima County totaling \$210,619 for 2023 and \$180,724 for 2022, understating its annual revenue.
- In 2023, the City recorded two receipts totaling \$54,418 as expenditures that it received electronically from the Washington State of Treasurer and Department of Commerce.
- The City did not deposit 22 out of 36 deposits within the required 24 hours, ranging from two to 11 days late and totaling \$133,189.

Utility billing

- In 2022 and 2023, the City overcharged two accounts by a total of \$487 and undercharged two accounts by a total of \$26.
- The Deputy Clerk did not enter the meter readings into the billing system for one account of a former public works employee from, at earliest, April 2023 to October 2024 even though the public works department recorded the meter readings and submitted them to the City to be uploaded to the system. Therefore, the City only charged the minimum consumption on the account, most likely underbilling the consumption.
- The City adjusted 16 billings for a total of \$100,720 from 2022 through 2024 and did not retain supporting documentation to demonstrate that these adjustments were appropriate
- The City did not establish payment plans, send accounts to collections or file liens for 68 delinquent accounts, including the Mayor's account, totaling \$48,297, as of December 31, 2024. Additionally, the City did not consistently shut off the water for delinquent accounts, including the Mayor's account, as required by municipal code.
- The City overcharged its shut-off and reconnection fees by \$10 for each customer whose account it shut off during the audit period.

Additionally, on June 17, 2024, the City experienced a misappropriation totaling \$22,641 when the Deputy Clerk took a deposit containing cash and checks to the bank. The City had to cancel checks totaling \$9,239 and experienced a loss of \$13,402 in cash. We reviewed and agreed with the results of the Mabton Police Department's subsequent investigation, as noted under the Related Reports – Special Investigations section of this report.

Recommendation

We recommend the City strengthen internal controls over cash receipting and billings to ensure it adequately safeguards public funds from loss or misappropriation. Specifically, we recommend the City:

- Provide the necessary resources and training to staff responsible for billing and cash receipting to ensure they receipt and safeguard all revenues appropriately
- Establish and follow a policy outlining guidelines for cash handling, segregation of duties, and independent reconciliations of deposits and bank statements. This should include an independent review of daily cash activity and depositing receipts within 24 hours.
- Establish a process for billing utility accounts accurately
- Document the independent review of all adjustments to cash receipts and utility accounts to verify all transactions are for a valid purpose, supported and calculated correctly
- Follow municipal code and policies for delinquent accounts, including shutoffs

City's Response

- *City staff will begin looking for local trainings to attend for billing and cash receipting.*
- *At the end of each day, the cashier/Deputy City Clerk and the treasurer review the day's receipts and record its accuracy. Daily intake of payments received are recorded and sealed in a deposit envelope while both individuals are present. As stated previously, deposits are then sent to the bank the next day by a uniformed police officer, or they are delivered to the bank via the night deposit box by a city staff member.*
- *Utility billing-meter reads will be entered by one city employee and then verified by a second city employee to ensure accuracy.*
- *All adjustments to cash receipts and utility accounts will be reviewed and entered in the system by the City Treasurer after proper documentation has been provided to warrant an adjustment.*
- *City employees will make every effort to be more mindful of municipal codes and policies for delinquent accounts, including shutoffs.*

The above practices have been put in place and formal policies will be forthcoming.

Auditor's Remarks

We appreciate the City's commitment to resolving these issues identified above and emphasize the importance of establishing effective controls over cash receipting and billing procedures. We will follow up on the status of the finding 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.

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Revenues, Cash Receipting, Sections 3.6.1

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Mabton January 1, 2021 through December 31, 2023

2023-002 The City lacks adequate oversight to ensure disbursements, credit card payments and fuel are for allowable and appropriate business expenses.

Background

The City spent about \$2.6 million, \$2.7 million and \$3.7 million on operating expenditures in 2021, 2022 and 2023, respectively. Of this amount, the City spent about \$98,000 using credit cards and about \$93,000 on fuel during this three-year period. State law requires the City review and certify all transactions before making payments. The City is responsible for establishing adequate controls over disbursements to ensure payments are for valid expenses. City management is also responsible for the integrity and retention of the original vouchers and other documents needed to prove the validity of every transaction relating to the use of public funds.

Description of Condition

General disbursements and credit cards

The City did not establish controls over disbursements and credit cards to ensure supporting documentation was maintained for all disbursement transactions, and that someone independently reviewed all purchases before payment. In addition, the City did not have a process to check out its credit cards.

The City did not retain supporting itemized receipts for 23 general disbursements totaling \$228,291, eight employee reimbursements totaling \$2,240 and eight credit card transactions totaling \$990. As a result, the City could not demonstrate that these transactions were for valid business purposes. The City also made an unallowable purchase of a tire for a personal vehicle totaling \$334.

Further, although two people signed the Mayor's reimbursement checks, the Mayor signed two of their own five checks. We would expect the City to prohibit employees from signing checks written to themselves to ensure adequate oversight and monitoring.

Fuel purchases

The City's public works department had one fuel card shared among multiple staff and did not assign a custodian to assign responsibility for the card or monitor fuel card activity to verify that fuel usage was reasonable. Specifically, City staff did not document the odometer readings or calculate the miles per gallon (MPG) to verify that fuel use and purchases were reasonable based on the vehicles' make and model.

The City's public works department has four vehicles that use unleaded fuel and specialized equipment that appear to use diesel. The department purchased 4,370 gallons of unleaded fuel between February 21, 2023, and July 18, 2024. Based on the public works vehicles' average MPG, we estimated that each vehicle would have to drive 52 miles per workday, which does not appear reasonable as the City limits is about 0.8 square miles. Additionally, the City purchased 38.4 gallons of unleaded fuel on three nonworking days.

Cause of Condition

The City experienced significant turnover during the audit period. Management, the Mayor and the Council did not devote sufficient attention to the accounts payable process, to adequately train staff or to monitor activity.

Effect of Condition

Without adequate internal controls and proper oversight over disbursements, credit cards and fuel cards, the City:

- Is at an increased risk of management not detecting a loss or misappropriation of public funds quickly, if at all
- Cannot demonstrate that general disbursements, credit card transaction and fuel purchases were legitimate and for valid business purposes
- Would not be able to assign responsibility should the fuel card or other City credit cards go missing or if purchases were for unallowable purposes.

In addition, on October 16, 2024, the City notified our Office regarding a loss of public funds, as required by state law. The Mabton Police Department performed an investigation in July 2024 and identified two unauthorized transactions from a former employee totaling \$93 occurring in July 2024. We reviewed the investigation and agree with its conclusions.

Recommendation

We recommend the City:

- Establish policies and procedures over disbursements and credit cards that include keeping itemized receipts for all transactions, and performing an independent review of expenses to ensure they are supported and for valid business purposes
- Adequately train staff responsible for processing accounts payable on the allowable uses of public funds and ensure employees do not sign their own checks
- Safeguard the fuel card and other City credit cards by assigning a custodian and establishing check-out procedures
- Establish a process for verifying the validity of fuel purchases by recording odometer readings, calculating MPG and checking for reasonableness

City's Response

The city has implemented a procedure for both the fuel cards and credit cards. Employees are required to check out the credit card for purchases and submit receipts for those purchases then they return the credit card. Fuel purchases for the Public Works department are logged onto a fuel log sheet and submitted to the City Treasurer monthly to match with fuel purchase receipts.

All credit card purchases are verified with the purchaser to ensure they are being utilized for city business.

Auditor's Remarks

We appreciate the City's commitment to resolving these issues and emphasize the importance of establishing effective policies and monitoring procedures over disbursement activity. We will follow up on the status of the finding during our next audit.

Applicable Laws and Regulations

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

RCW 43.09.200 – Local government accounting – Uniform system of accounting

RCW 43.09.2855 – Local Governments – Use of credit cards

RCW 43.09.185 – Loss of public funds – illegal activity – Report to state auditor's office

Budgeting Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Expenditures, Purchase Cards, Sections 3.8.4

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Mabton January 1, 2021 through December 31, 2023

2023-003 The City did not comply with state law and operated without a legally approved budget.

Background

State law requires the City to adopt an appropriated budget, authorizing the City's legal spending limits. Expenditures more than budgeted appropriations are considered void by state law. Further, the Council cannot authorize spending that exceeds available resources.

State law also requires a minimum of three public hearings during the budget adoption process to discuss revenue sources, preliminary budget proposal and final budget proposal. State law requires the City to provide adequate public notice of the public hearings, meet certain deadlines during the budget adoption process and make its preliminary budget available for taxpayer examination.

Description of Condition

The City's elected officials and management did not approve its 2024 budget until November 2024, nor monitor expenses and available fund balance when obligating expenses. Additionally, the City did not properly advertise and hold all required meetings by the appropriate deadlines as required by state law. The City only held the first of three public hearings to discuss the preliminary budget, and held no further hearings in 2023.

Cause of Condition

The City experienced significant turnover during the audit period. Management, the Mayor and the Council did not devote sufficient time and resources to prepare or finalize the annual City budget until the end of 2024.

Effect of Condition

The City operated for 330 days in 2024 without an approved budget, which is a violation of state law. When the City does not establish an approved budget, it puts public funds at risk and cannot ensure all money is used appropriately and for intended purposes. Any payments made in excess of, or without an approved budget, are unallowable.

Also, the City did not demonstrate that it involved the public in the budgeting process by the required deadlines, as required, by submitting preliminary draft proposals and holding public hearings.

Recommendation

We recommend the City's elected officials and management comply with state laws related to budgets. Specifically, we recommend the City establish its annual budgets before the beginning of the fiscal year and obligate expenditures only when funds have the available budget. We also recommend the City submit its annual budgets to our Office.

City's Response

The city is currently working on reconciling 2024 bank statements so that we can be better prepared to begin budget planning mid-June to ensure we have a 2026 budget in place within the required time frame.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of establishing effective policies and monitoring procedures over City spending. We will follow up on the status of the finding during our next audit.

Applicable Laws and Regulations

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

RCW 35A.33.075 – Budget Adoption

The Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Mabton January 1, 2021 through December 31, 2023

2023-004 The City lacked adequate internal controls over financial reporting to ensure compliance with state law requiring timely annual report submission.

Background

Federal and state agencies, the City Council and the public rely on the information included in financial statements and reports to make decisions. The City 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 City to submit an annual 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

Description of Condition

The City did not submit the required annual reports to our Office within 150 days of fiscal year-end. The City filed its 2022 annual report 616 days late and has not filed its 2023 annual report.

Cause of Condition

Due to staff turnover, the City had not fully reconciled bank statements for 2022 until February 2025 and has not fully reconciled bank statements for 2023. Additionally, City leadership did not dedicate the necessary resources to submit the annual report on time.

Effect of Condition

Delays in the availability of complete financial reports prevent City 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. Further, the City's failure to respond impeded our Office's ability to audit the government in a timely manner, as state law requires.

Recommendation

We recommend the City establish internal controls to ensure timely financial reporting in accordance with state law.

City's Response

The city has nearly completed reconciling the bank statements for 2024 and is working on preparing the annual report for submission by the deadline of May 30, 2025.

Auditor's Remarks

We appreciate the City's commitment to resolving this issue and thank them for their cooperation and assistance during the audit. We will follow up on the status of the finding during our next audit.

Applicable Laws and Regulations

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

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>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding the financial statement preparation process and compliance with state law.

Special investigations

We issued a fraud investigation report on activities at the City. That report is available on our website, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Mabton operates under a mayor-council form of government with a five-member Council and an elected Mayor. The Council is responsible for creating policies and procedures and making financial decisions. The Mayor and the City Council are responsible for overseeing day-to-day operations.

The City provides municipal and proprietary services which include public safety, infrastructure maintenance, cemetery facilities, library facilities, emergency response and water, sewer and solid waste utilities. The City's resources appropriated for expenditures were approximately \$4.5 million for fiscal year 2021 and 2022 and \$6.2 million for 2023.

Contact information related to this report

Contact:	Sophia Martin, City Treasurer
Telephone:	(509) 894-4096
Website:	www.cityofmabton.com

Information current as of report publish date.

Audit history

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