



Washington State Auditor's Office

September 23, 2015

Mayor and Town Council
Town of Cathlamet
Cathlamet, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial audit of the Town of Cathlamet from January 1, 2014 through December 31, 2014. We believe our recommendations will assist you in improving the Town's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to Town officials and personnel. If you have any further questions, please contact me at (360) 260-6408 extension 106.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Tina Watkins, CPA
Audit Manager

Attachment

Management Letter
Town of Cathlamet
January 1, 2014 through December 31, 2014

Internal controls over accounting

The Town has appointed a Clerk/Treasurer to manage the accounting and financial reporting of Town operations. The Mayor and Town Council are responsible for overseeing these functions, including approving all disbursements made by the Town. During 2014, the Town had \$2.5 million in expenditures, including payroll and accounts payable claims.

Prior to the start of our audit, we were contacted by the Mayor and Council regarding a payment made to the IRS without their approval. Our audit found the Internal Revenue Service (IRS) had sent notices to the Town stating they had not received fiscal year 2010's W2/W3 information and a penalty would be assessed if they were not received. The Clerk/Treasurer did not respond to these notices. During FY 2014, the IRS initiated an electronic funds transfer (EFT) for the associated penalties that were assessed. This payment of \$28,612 was not approved by the Council. We noted that the IRS had also sent notices to the Town alerting them they were missing additional W2/W3 information and more penalties would be assessed if they were not received. The Clerk/Treasurer had not followed up on these notices at the time of our audit.

We identified the following control deficiencies related to the Town's accounting processes:

- The Town did not have a process in place to ensure all disbursements were approved by the Council and were valid expenses. In addition to the payment made to the IRS as noted above, we found that all EFT and payroll related disbursements were not approved by the Council during the year. Furthermore, the IRS indicated that the penalties paid could have been avoided by contacting them and submitting the missing information.
- The Town lacked adequate oversight of the Clerk/Treasurer. Also, the Clerk/Treasurer and Council were not effectively communicating as the Council was unaware the IRS was missing information and assessing penalties. Without adequate oversight, payments could be made that would potentially be invalid.

We recommend that the Town ensure all payments are reviewed and approved by council and represent valid claims against the Town. Additionally, we recommend that the Town work with the IRS to determine what other information needs to be submitted and if the Town can be refunded any penalties paid.