



Office of the Washington State Auditor  
Pat McCarthy

# Accountability Audit Report

## City of Tenino

For the period January 1, 2019 through December 31, 2022

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

December 26, 2024

Mayor and City Council  
City of Tenino  
Tenino, 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. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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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 findings.

We also noted certain matters related to municipal court operations, police department operations, and utility billing and B&O taxes that we communicated to City management and the Mayor and City Council in a letter dated December 20, 2024. We appreciate the City's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of two separate engagements.

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 Tenino from January 1, 2019 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, 2021, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. In addition, as part of this audit we followed up on the special investigation report issued April 13, 2023, over cash receipting and accounts receivable for utility billing, adjustments and collections,

and on the special investigation report issued on January 13, 2022, over electronic funds transfers. We examined the following areas during this audit period:

- Financial condition – reviewing for indications of financial distress
- Municipal court – cash receipting, adjustments and collections
- Police department – disposition of property and forfeiture
- Accounts receivable – utility billing, adjustments and collections
- Cash receipting – timeliness and completeness of deposits
- Accounts payable – electronic funds transfers
- Use of restricted funds – interfund transfers and loans
- Cost allocation plan – equitable distribution of payroll costs
- Payroll – gross wages and electronic funds transfers
- Open public meetings – compliance with minutes, meetings and executive session requirements

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Tenino January 1, 2019 through December 31, 2022

#### **2022-001 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 of Tenino currently serves 1,819 residents in Thurston County. The City provides a full range of services including police, municipal court, street maintenance and construction, parks and recreation, planning and economic development, storm water management and water services. An elected, five-member Council and an independently elected Mayor govern the City. The Council appoints department heads to oversee the City's daily operations and its 13 employees. For fiscal years 2022, 2021, 2020 and 2019, the City's general fund had operating expenditures of about \$1,674,629, \$1,326,398, \$1,501,745 and \$1,161,110, respectively.

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

The City did not establish adequate internal controls over financial operations to ensure it can sustain operations and meet obligations.

Our audit identified a decline in cash position within its governmental funds as shown in the following table:

Ratios	As of the year ending December 31:				
	2019	2020	2021	2022	2023 Unaudited
Govt fund beginning cash & investments	546,038	533,478	309,006	691,144	101,366
Govt fund ending cash & investments	535,478	309,006	691,144	100,248	(358,422)
Percent change in cash position	(2%)	(42%)	124%	(85%)	(454%)

Also, the City paid expenditures from the City Street fund that did not have available cash and reported a negative cash and investment balance of \$503,932 in 2022.

When expenditures in a fund exceed the amount of available resources, the City uses 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 resolution or ordinance that includes a payment plan and set a reasonable interest rate the City will pay to the lending fund. If the City does not repay interfund loans in a timely manner, it would represent an unallowable diversion of funds. The City effectively borrowed from restricted revenues to sustain operations in 2022 and 2023.

### *Cause of Condition*

The City did not establish adequate internal controls over its financial condition to ensure it may continue operations, and did not develop a comprehensive financial plan to improve its financial condition.

Additionally, the City experienced high turnover in key positions during the audit period that resulted in additional challenges including staff's lack of knowledge and experience.

### *Effect of Condition*

The City is at an increased risk of being unable to meet its financial obligations and maintain its operations at the present level. Further, the City had expenditures that exceeded its fund's available resources.

### *Recommendation*

We recommend the City establish adequate internal controls over financial operations and closely monitor financial operations to ensure it can meet its financial obligations. Specifically, the City should implement a comprehensive financial plan to improve its financial condition.

We also recommend the City obligate expenditures only when funds have the available resources to pay for transactions and comply with the *Budgeting, Accounting and Reporting System* (BARS) Manual when borrowing from restricted funds by implementing allowable interfund loans.

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

*In response to the Performance and Accountability Audit of the City of Tenino from January 1, 2019- December 31, 2022. We appreciate the thoroughness and professionalism with which the audit was conducted, and we acknowledge receipt of the audit findings.*

*The City of Tenino is committed to ensuring compliance, transparency, and adherence to best practices in all aspects of our operations. Your audit report has been instrumental in identifying areas where improvements can be made, and we are dedicated to implementing these improvements promptly.*

*Additionally, we would like to thank your audit team for providing valuable insights and recommendations throughout the audit process. We believe that their expertise and guidance will contribute significantly to the City of Tenino ongoing growth and success.*

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

We appreciate the steps the City is taking to resolve this issue. We will review the corrective action taken during our next audit.

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

RCW 35.33.121 – Funds – Limitations on expenditures – Transfers

*Budgeting, Accounting and Reporting System (BARS) Manual 3.9.1 – Interfund Loans*



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Tenino January 1, 2019 through December 31, 2022

#### **2022-002    The City lacked adequate internal controls over financial reporting to ensure compliance with state law requiring timely annual report submissions.**

##### ***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, 2021 and 2019 annual reports 246, 519 and 330 days late, respectively. The City filed its 2020 annual report on time.

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

Due to staff turnover, City leadership did not dedicate the necessary resources to submit the annual report on time and did not respond to our Office's outreach efforts, which limited their access to support and training.

##### ***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 and inaccuracies 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***

*In response to the Performance and Accountability Audit of the City of Tenino from January 1, 2019- December 31, 2022. We appreciate the thoroughness and professionalism with which the audit was conducted, and we acknowledge receipt of the audit findings.*

*The City of Tenino is committed to ensuring compliance, transparency, and adherence to best practices in all aspects of our operations. Your audit report has been instrumental in identifying areas where improvements can be made, and we are dedicated to implementing these improvements promptly.*

*Additionally, we would like to thank your audit team for providing valuable insights and recommendations throughout the audit process. We believe that their expertise and guidance will contribute significantly to the City of Tenino ongoing growth and success.*

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

We appreciate the steps the City is taking to resolve this issue. We will review the corrective action taken 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 accuracy of amounts reported on the financial statements, Schedules of Liabilities, and the Schedule of Expenditures of Federal Awards.

### **Special investigations**

We issued two reports on fraud investigation reports on activities at the City. Those reports are available on our website, <https://portal.sao.wa.gov//ReportSearch>.

## INFORMATION ABOUT THE CITY

The City of Tenino currently serves 1,819 residents in Thurston County. The City provides a full range of services including police, municipal court, street maintenance and construction, parks and recreation, planning and economic development, storm water management and water services.

An elected, five-member Council and an independently elected Mayor govern the City. The Council appoints department heads to oversee the City's daily operations and its 13 employees. For fiscal years 2022, 2021, 2020 and 2019, the City's general fund had operating expenditures of about \$1,674,629, \$1,326,398, \$1,501,745 and \$1,161,110, respectively.

### Contact information related to this report

Address:	City of Tenino P.O. Box 4019 Tenino, WA 98589
Contact:	Jen Scharber, Clerk Treasurer
Telephone:	(360) 264-2368
Website:	<a href="http://www.cityoftenino.us">http://www.cityoftenino.us</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the City of Tenino 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](http://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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(866) 902-3900
- Email:  
[webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov)