

Edit Referral

H-23-071 Referral Information

Hotline ID: H-23-071

Date of Submission: 2/16/2023

Entity Type: Local

Entity Category Type: City/Town

Entity: Toppenish, City of

Sub Entity Name:

Category: Accounting/Financial Reporting

1-2 sentence description of concern: Expenditures exceeding spending authority

Report Issued: Yes

Reporting Type: Management Letter

Report Number: 1034162

Investigation Contracted: No

Contract Number:

Contract Name:

Billing Time Code:

Costs:

Public Records Request: Yes

Flag For Annual Report: No

Substantiated: No

ARRA: No

Action: Referred to Audit Team - Consider Next Audit

Audit Team: Yakima

Audit Team Contact: stranda@sao.wa.gov

cc: AMY Bunger (bungera@sao.wa.gov)

Referral Date: 2/17/2023

Action Taken: No

Response Date:

Report Date:

Follow Up Date:

Date Closed: 2/8/2024

Edit Referral

H-23-071 Contact Information

Hotline ID: H-23-071

Date of Submission: 2/16/2023

Submission Method: Web

Submission Type: Local government employee

Staff:

Author(Last, First): Shaul , Victor

Address: 361 S MITCHELL DR

City: YAKIMA

State: WA **Zip:** 98908

Home Phone:

Work Phone:

Mobile Phone: 509.907.0859

Email: vshaul1234@gmail.com

Can Contact: Yes

Contact: Mobile Phone

Preference: Email

Anonymous: No

Waived Confidentiality: No

Edit Referral

H-23-071 Referral Details**Hotline ID:** H-23-071**What state or local organization is involved?****Please identify the specific concerns you are hoping the audit will address.**

Expenditures exceeding spending authority

Please provide a detailed description of the assertion or outstanding achievement, including who, when, where, what, how and how much.

Temp police building change order At the June 27, 2022 City Council meeting council approved a contract with Mobile Modular for the temporary police building. The approved amount for set-up was \$49,939.21. At the January 9, 2023 Council meeting the approved check register shows a payment to Mobile Modular in the amount of \$49,939.20 for the previously approved amount. On December, 20, 2022 the City Manager signed and accepted Change Order #1 with Mobile Modular serving as an addendum to the original contract. The change order was for the amount of \$22,545.00. A review of City Council agendas right before and right after this date does not show Council approval of this change order. The amount of the change order exceeds the expenditure authority of the City Manager.

How did this issue come to your attention?**What employee(s), contractors, etc., were involved in the assertion or achievement? Please include employee titles if possible.****Please provide the names of any witnesses to the assertion or achievement, if possible.****Please provide any additional details or comments that would help us understand your assertion or achievement.**

Edit Referral

H-23-071
Activity
Log

Hotline ID: H-23-071

Entry Date ▼	Log Entry
02/08/2024	Referral updated by 'JEANA Gillis (gillisj)'.
02/08/2024	Referral updated by 'ANN Strand (stranda)'.
02/08/2024	Sent MI to citizen --bungera
02/08/2024	This hotline can be closed. --stranda
01/26/2024	We spoke to the citizen about all of the hotlines they have submitted and let them know the recommendations we will be providing to the City as a result. We let them know that after report issue we will provide a copy to the citizen. They were find with not receiving a formal close out letter as long as they get a copy of the recommendation --bungera
03/23/2023	Referral updated by 'JEANA Gillis (gillisj)'.
02/23/2023	Talked to citizen and the city manager can only approve expenses up to \$20,000 and change order was more, so it is over authority and should be approved by council. Will leave open to incorporate into next audit. --bungera
02/17/2023	Referral updated by 'JEANA Gillis (gillisj)'.
02/17/2023	Task assigned to 'stranda@sao.wa.gov'. Team notification email sent to: stranda@sao.wa.gov,bungera@sao.wa.gov
02/17/2023	Referral updated by 'JEANA Gillis (gillisj)'. Action changed from (not set) to Referred to Audit Team - Consider Next Audit.
02/17/2023	Left a message for the citizen to return our call on the hotline. --bungera



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

January 31, 2024

City Council and City Manager
City of Toppenish
Toppenish, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the City of Toppenish from January 1, 2020 through December 31, 2022. We believe our recommendations will assist you in improving the City'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 city officials and personnel. If you have any further questions, please contact me at (509) 454-7849.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. 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 their cooperation and assistance during the audit.

Sincerely,

A handwritten signature in cursive script that reads "Ann Strand".

Ann Strand, Audit Manager

Attachment

Management Letter
City of Toppenish
January 1, 2020 through December 31, 2022

Electronic payments

Since 2016, Washington's governments have reported more than \$30 million of lost public funds as a result of cyberfraud, sometimes referred to as phishing, spearfishing, or business email compromise schemes. In these schemes, an external threat actor contacts the government, appearing to be a known source—an employee, upper-level manager, vendor, or other business associate. Government staff are convinced to redirect valid payments to the external threat actor, or to purchase gift cards and provide them with the card numbers.

It is imperative that governments implement robust internal controls over all disbursements. This includes establishing a verification process for all requests to change an employee's or vendor's contact and payment information, as well as any requests to purchase gift cards, especially when they come through email, phone, fax, or another electronic method.

The City processed electronic funds transfer (EFT) payroll of about \$3.3 million, \$3.5 million and \$3.6 million in 2020, 2021 and 2022, respectively. The City is responsible for establishing effective controls over electronic payments, including the payment information on file for vendors and employees, to protect electronic payments from internal and external threats.

Our audit found the City did not have adequate internal controls over electronic payments to protect public funds. Specifically, in 2020, the City reported a phishing incident related to a misappropriation of public funds. The City made one payroll payment totaling \$1,963 to a fraudulent bank account.

We examined the City's controls over electronic payroll payments and found:

- The City did not have a written policy requiring sufficient verification for all bank change requests to make sure they were made by the actual employee. The City adopted a policy after the loss.
- City staff did not consistently or adequately follow the intended procedures when verifying change requests.
- While the City adopted a new policy after the loss, it does not have the required elements prescribed in the *Budgeting, Accounting and Reporting System* (BARS Manual), section 3.8.11.30. Further, it does not detail some of the City's intended procedures.
- Training provided to City employees was not effective, as staff missed key red flags common to phishing schemes, such as inaccurate email addresses.

We recommend the City:

- Update its written policies and procedures over electronic payroll payments so that they describe the required verification procedures and include the required elements prescribed in the BARS Manual (3.8.11.30)

- Strengthen its controls to ensure staff follow verification procedures to protect EFT transactions from internal and external threats
- Provide adequate communication and training to staff on the verification requirements to ensure they are consistently followed

Procurement

When procuring for professional services, such as architectural and engineering services, state law (RCW 39.80.030 – .050) requires cities to select the most qualified firm. The City must publish advance notification for qualifications, and contract with the firm deemed to be the most qualified to provide services—based upon the City’s established criteria—at a price the City determines is fair and reasonable. State law also requires the City to use formal sealed bidding to procure public works projects that exceed a certain dollar threshold.

In 2020 through 2022, the City paid \$4,182,380 to two engineering firms for general architectural and engineering services. The City published one request for qualification, which indicated that the City was searching for firm(s) for several municipal engineering services such as water, sewer, drainage and street projects. The City performed one evaluation and awarded a general engineering contract to the top two most qualified firms for general engineering and planning tasks, instead of selecting the one most qualified firm for the advertised scope of services.

In addition, the City did not use the most restrictive procurement method when procuring a public works project, totaling \$468,031, to construct a temporary police building. The City procured two vendors separately for this project by using quotes to select one vendor and the small works roster process to select the other vendor. State law requires this entire project to be procured through one formal sealed bid. Additionally, the City did not include the entire length of the lease term when estimating the cost of the project. We also found that the City approved a change order totaling \$22,545 for electrical work on this project that was outside of the general scope of the original contract.

We recommend the City establish effective internal controls to ensure it procures architectural and engineering services and public work projects in accordance with state law. Specifically, we recommend the City:

- Advertise separately for professional services when contracting with multiple firms to ensure the City selects the most qualified firm for the type of service required
- Evaluate and include all costs for services when determining the appropriate procurement method for public works projects
- Ensure all change orders are for services that are within the original scope of the contract