

## Edit Referral

### H-23-207 Referral Information

**Hotline ID:** H-23-207

**Date of Submission:** 4/21/2023

**Entity Type:** Local

**Entity Category Type:** City/Town

**Entity:** Toppenish, City of

**Sub Entity Name:**

**Category:** Billings/Receivables

**1-2 sentence description of concern:** The correct application of the city's utility tax.

**Report Issued:** Yes

**Reporting Type:** Exit Item

**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:** 4/24/2023

**Action Taken:** No

**Response Date:**

**Report Date:**

**Follow Up Date:**

**Date Closed:** 2/8/2024

## Edit Referral

### H-23-207 Contact Information

**Hotline ID:** H-23-207

**Date of Submission:** 4/21/2023

**Submission Method:** Web

**Submission Type:** Local government employee

**Staff:**

**Author(Last, First):** Victor

**Address:** 361 South Mitchell Drive

**City:** Yakima

**State:** WA **Zip:** 98908

**Home Phone:**

**Work Phone:**

**Mobile Phone:** 509.907.0859

**Email:**

**Can Contact:** Yes

**Contact Preference:** Mobile Phone

**Anonymous:** No

**Waived Confidentiality:** No

# Edit Referral

**H-23-207 Referral Details****Hotline ID:** H-23-207**What state or local organization is involved?****Please identify the specific concerns you are hoping the audit will address.**

The correct application of the city's utility tax.

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

At the November 28, 2022 City Council meeting the City Council for the City of Toppenish passed Ordinances 2022-19, 2022-20, and 2022-21 to lower the utility tax rate for water, sewer, and solid waste from 31% to 29% for 2023. The Administrative Services Director failed to ensure that the tax rate was changed in the city's utility billing system. The city has continued to charge 31% utility tax for 2023. Reference at a minimum the utility bill for 704 South Toppenish Avenue for November and December of 2022 and January and February of 2023. This account was billed the minimum amount for these months. The total due was the same across all four months. The bills for January and February should have reduced in total for the reduction of the utility tax. They did not. There is also question that the amount of utility tax collected on an annual basis exceeds the amount authorized by Council in the past. In looking into this issue it came to light that the previous Administrative Services Director - Debbie Zabell - made the decision to not list the utility tax as a line item on the utility bills but instead to include it in the rate. This reason for this was because enrolled Yakama Nation Members would come in every month to pay the utility bill and claim the exemption from the tax. By 'hiding' the utility tax by including it in the rate the city is collecting utility tax on enrolled Yakama Nation members when it should not. Thus eliminating the hassle of dealing with this every month with the added result of collecting tax from the Yakama Nation members that should not be paying it.

**How did this issue come to your attention?**

I was asked the question by a city council member whos bill did not reduce in 2023 and was asked to look into it.

**What employee(s), contractors, etc., were involved in the assertion or achievement?  
Please include employee titles if possible.**

Debbie Zabell - City Manager Heather Jobe - Administrative Services Director

**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-23-207  
Activity  
Log  
Hotline ID: H-23-207

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 exit recommendation 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
05/16/2023	Spoke to citizen on another concern and wanted to add that the example in his complaint when he looked again was not charged tax at all and is concerned there are others that they are not charging tax on at all. may consider pulling this address in the concern to recalc. --bungera
04/25/2023	Spoke to citizen and he is concerned that the City is hiding tax amount and not recording a separate line item because the Yakama Nation is not supposed to pay taxes and they are, so the City hides the taxes in the total, so they are not aware. Also, the tax rate changed in 2023 and he has noticed that the bills are still the same being billed at the old rate. We will consider this in our next audt. --bungera
04/24/2023	Referral updated by 'JEANA Gillis (gillisj)'.
04/24/2023	Task assigned to 'stranda@sao.wa.gov'. Team notification email sent to: stranda@sao.wa.gov,bungera@sao.wa.gov
04/24/2023	Referral updated by 'JEANA Gillis (gillisj)'. Action changed from (not set) to Referred to Audit Team - Consider Next Audit.



Exit Recommendations  
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We are providing the following exit recommendations for management's consideration. They are not referenced in the audit report. We may review the status of the following exit items in our next audit.

**Accountability:**

**Utility Billings and Adjustments**

The City bills about \$7 million in utility charges annually and City staff adjusted accounts by about \$152,803 in 2020, \$16,269 in 2021 and \$169,920 in 2022. The Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3 requires all local governments to have adequate internal controls to provide reasonable assurance of effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reliability of financial reporting. The City did retain support to demonstrate the validity for 19 out of 30 adjustments totaling \$26,723. Additionally, the City did not document the preparer, reviewer or how the adjustment was calculated for six adjustments totaling \$72,967.

In addition, state law requires cities to disclose the tax rate to the citizens if it is not itemized on the utility bill. Since the City includes the tax rate in the usage rate and not as a separate line item on the bill, the City is required to disclose the tax rate to citizens on the bill. Although the City does disclose the tax rate to citizens on the face of the mailed bills, the City did not include this disclosure on the electronic bills.

We recommend the City implement controls to ensure adjustments are properly supported, reviewed and in accordance with the municipal code. Additionally, we recommend the City update the electronic utility bills to include a disclosure to the citizens of the approved tax rate.

**Cash receipting**

The City receives about \$23,000 in building permit revenue and about \$1,000 in gazebo rentals annually. When customers apply for a building permit for land use, they are required to pay a deposit for development review of the land and determine whether it's viable for construction and whether there are any environmental impacts. After the City performs the review, per resolution 2022-34, the City refunds all or part of the deposit if direct costs are less than the development review fee. The City issued two permits in March 2023 and two permits in September of 2023 to one customer totaling \$9,499 and had not refunded this customer for building permit deposits as of December 2023.

Additionally, municipal code 2.8.050 allows the City to discount or waive gazebo rental fees for nonprofit organizations; however, the code does not outline how much can be discounted or waived. The City discounted 50% of the gazebo rental rate to one nonprofit organization. The



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City was unable to provide support for how they calculated the discount.

We recommend the City:

- Track and monitor building permit deposits and ensure deposits are refunded when necessary
- Update the municipal code to include how rental fee discounts or waivers are to be determined and calculated

### **Annual report late filing**

State law (RCW 43.09.230) requires local governments to file their annual financial reports to the Office of the State Auditor within 150 days of their fiscal year end. The City submitted all required items on July 28, 2022, which was 59 days after the filing deadline.

We recommend the City ensure compliance with annual report filing deadlines.

### **Payroll**

The City spent about \$3.6 million in payroll costs annually. Due to turnover in the payroll department, we identified controls were ineffective to ensure staff were properly calculating payroll costs, voiding lost checks, sending unclaimed property (outstanding checks) to the Department of Revenue timely, and processing insurance refunds through the appropriate accounting system. In addition, the City has not updated its longevity policy to clearly define how this pay will be consistently applied.

As a result, the City:

- Incorrectly paid one employee that was on administrative leave for one pay period. The City paid the employee at an hourly rate instead of at the union rate agreement resulting in an underpayment of \$194.
- Did not void a lost payroll check after reissuing it to the employee.
- Did not submit outstanding checks to the Department of Revenue as unclaimed property timely. When a payroll check is outstanding for one year or more it is required to be voided or returned to the Department of Revenue as unclaimed property.
- Incorrectly deducted insurance costs from one employee's payroll check after the insurance was cancelled. Also, the insurance refund was processed through the payroll system rather than the accounts payable system as required by state law.

Also, the City paid one employee longevity pay upon hire due to prior years of service in government, which was approved by the City Manager. The personnel policy gives the City Manager hiring authority, including setting wages; however, City policy does not clearly state whether longevity is for City service or prior government service. City policy should clearly define when longevity can be paid to ensure that the policy is consistently applied and paid to all employees.



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We recommend the City perform a secondary review of payroll to ensure pay is accurately calculated and in accordance with City policy. Additionally, we recommend the City properly void lost checks, review outstanding checks to ensure any unclaimed property is submitted to the Department of Revenue and ensure refunds are processed through the correct accounting system.