



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Accountability Audit Report**

# **Town of Spangle**

**Spokane County**

**For the period January 1, 2012 through December 31, 2013**

**Published November 20, 2014**

**Report No. 1012992**





# Washington State Auditor Troy Kelley

November 20, 2014

Mayor and Town Council  
Town of Spangle  
Spangle, Washington

## Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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 Town operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Town's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, Town operations complied with applicable requirements and provided adequate safeguarding of public resources. The Town also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Town should make improvements.

We continue to recommend the Town document the rationale for charging shared services and retain support for the charges to each fund to ensure costs of central services and support functions shared across funds are distributed only to the extent that each fund benefits from those services. We also recommend the Town correct the allocation of shared costs for 2013 to the amounts supported by the time study and use supported percentages for all future allocations.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of the Town of Spangle from January 1, 2012 through December 31, 2013.

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.

Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Cash receipting
- Procurement (architectural/engineering services)
- Interfund transactions
- Cost allocations
- Financial condition

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### 1. The Town does not allocate shared costs to restricted funds based on the actual benefit received.

#### *Background*

Towns are allowed to charge costs incurred by their central service functions, such as general administration, purchasing and payroll to the funds that benefit from the services. They should charge costs in proportion to the benefit received. The Town has a responsibility to adopt a fair and equitable method of distributing shared costs among funds. Additionally, state law prohibits resources restricted for specific uses, such as utilities, to benefit or subsidize other functions of government.

During the prior audit, we communicated concerns to the Mayor, Town Council and management about the Town’s lack of support for its allocation of shared costs.

#### *Description of Condition*

The Town still has no written policies or procedures regarding cost allocations. Since the prior audit, the Town performed a time study for the two employees whose salaries totaled \$78,472. We reviewed the time study and found that the two employees tracked their time for January and February 2013 based on the fund that received the benefit. However, after the time study was complete, the Town did not allocate costs based on results of the study but continued to allocate their time based on unsupported percentages.

Actual Allocation Used:

Fund	Clerk Treasurer	Public Works Director
Current Expense	30%	10%
Street		10%
Water	40%	40%
Sewer	20%	40%
Garbage	10%	

Allocation Supported by the Time Study:

Fund	Clerk Treasurer	Public Works Director
Current Expense	49%	2%
Street	6%	13%
Water	15%	25%
Sewer	15%	60%
Garbage	15%	

### *Cause of Condition*

While the Town performed a time study in an attempt to resolve the concerns noted in the prior audit, the employee responsible for the cost allocations in the accounting records did not have the knowledge to properly apply the time study results to ensure charges for shared costs were appropriately allocated.

### *Effect of Condition*

The Town did not allocate central service costs equitably to the funds receiving the benefit based on the time study as follows:

<b>Fund</b>	<b>Actual salary allocation charged</b>	<b>Benefit received based on the time study</b>	<b>Amount Over (Under) charged</b>
General Fund	\$12,790	\$14,659	(\$1,868)
Water Fund	\$31,949	\$16,587	\$15,362
Sewer Fund	\$26,384	\$34,964	(\$8,580)
Garbage Fund	\$2,782	\$4,302	(\$1,520)
Street Fund	\$4,567	\$7,960	(\$3,393)

As communicated in Finding No. 1 in the Financial Statements Audit Report, the Town has experienced a financial decline over the past few years causing a fund balance deficit in the water fund. This deficit and the fund balances of all funds are impacted by the improper allocation of shared service costs.

### *Recommendation*

We continue to recommend the Town ensure costs of central services and support functions shared across funds are distributed only to the extent that each fund benefits from those services. Specifically the Town should:

- Develop and follow a policy that governs how the Town calculates and charges shared services costs to all funds. The policy should specifically require the Town to:
  - Document the rationale for charging shared services to each fund.
  - Retain support of the actual charges to each fund and how they were calculated.
- Review and update the policy and the cost allocation plan for charging shared services costs at least annually.
- Correct the allocation of shared costs for 2013 to the amounts supported by the time study and use supported percentages for all future allocations.

## ***Town's Response***

*The Town will revise its current cost allocation of funds, and correct it with a more accurate formula for expenditures in the various funds.*

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

We appreciate the Town's commitment to resolve this finding and thank the Town for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

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

RCW 43.09.210 Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property, states in part:

Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body.

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

RCW 35.33.123 Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized:

Whenever any city or town apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city or town, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's or town's current expense fund for the value of such services.

BARS Manual – Accounting/Interfund Activities/Overhead Cost Allocation Part 3.9.5, states in part:

Overhead costs consist of the costs of central services or support functions shared across departments. They may include accounting, human resources, payroll, information technology, janitorial services and others. Overhead costs may include not only the salaries, wages and benefits of the employees who

work in these departments, but the utilities, supplies, information technology, building maintenance and other costs that support these employees. Typically, such services are initially paid through the general fund or an internal service fund and charged back to the departments and programs that directly benefited from them. The cost allocation process must be guided by an overhead cost allocation plan that describes how the organization will allocate costs reasonably and equitably across funds and departments and identifies the documentation required to support the charges.



## STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of the Town of Spangle is provided below:

### **1. The Town has not effectively managed its operations, resulting in a decline in its financial condition.**

Accountability Report, Report No. 1008654, dated December 3, 2012

#### *Background*

The Town's financial position has declined over the past few years increasing the risk that it will not be able to meet its operating expenses or maintain services to its citizens at current levels. The Town also exceeded its legally adopted budget appropriation in the Street Fund in 2011 and relies on unsupported cost allocation transfers to restricted utility funds to maintain a positive cash balance in its General Fund.

#### *Status*

After receiving a finding, the Mayor and Council of the Town passed its Utility Tax. The Ordinance was passed on November 26, 2012, and includes a 6 percent tax on the Town's electrical, gas, and land line telephone utilities. The Mayor and Council Members understand this will not completely eliminate the negative balance right away and are working on other types of revenue that may help in the future. Raising the water rates, a utility deposit and creating a business fee license for the Town are just a few.

Although the Town has taken steps to improve its financial condition and improve the monitoring of its financial operations, concerns continue to exist and the finding is repeated as Finding 1 in the Financial Statements Audit Report. The Town also continued to make unsupported cost allocations, which are included in an audit finding in this report.

## RELATED REPORTS

### **Financial**

Our opinion on the Town's financial statements is provided in a separate report, which includes the Town's financial statements.

That report includes findings for a significant deficiency in internal controls over financial statement report preparation and declining financial condition, which could impact the Town's ability to maintain services at present levels.

## INFORMATION ABOUT THE CITY

The Town of Spangle, incorporated in 1888, serves 280 Spokane County residents. It provides an array of services including parks, water, wastewater, street and general administrative services.

An elected, five-member Council with a separately elected Mayor governs the Town. The Council appoints management to oversee the Town's daily operations as well as its two full-time employees. For fiscal years 2012 and 2013, the Town operated on annual budgets of \$650,000 and \$1,024,000, respectively.

### Contact information related to this report

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*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Town of Spangle at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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