



# Washington State Auditor's Office

Independence • Respect • Integrity

## Accountability Audit Report

# City of Arlington

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published September 30, 2015

Report No. 1015132





## Washington State Auditor's Office

September 30, 2015

Mayor and City Council  
City of Arlington  
Arlington, 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 City 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 City'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,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Audit Summary.....	4
Status Of Prior Audit Findings .....	5
Related Reports.....	7
Information About The City .....	8
About The State Auditor’s Office.....	9

## AUDIT SUMMARY

### Results in brief

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

However, we noted certain matters that we communicated to City management in a letter dated September 28, 2015, related to lodging tax revenues, cash receipting and billings. We appreciate the City's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of the City of Arlington from January 1, 2014 through December 31, 2014.

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:

- Airport operations
- Payroll
- Utility billing
- Lodging tax revenues
- Cash receipting
- Conflict of interest
- Budget compliance

## STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Arlington. The State Auditor’s Office has reviewed the status as presented by the City.

<b>Audit Period:</b> January 1, 2013 – December 31, 2013	<b>Report Ref. No:</b> 1013812	<b>Finding Ref. No:</b> 2013-001
<b>Finding Caption:</b> The City of Arlington lacks adequate internal controls over Airport financial activities.		
<b>Background:</b> We reviewed the internal controls over leasing activities and cost allocations at the Airport. Our audit found:		
<ul style="list-style-type: none"> <li>• The City does not have contracts in place for all space leased at the Airport.</li> <li>• The City has a relationship with a non-profit to provide services and to lease space from the City that mutually benefits both parties; however, the City does not have an agreement with the non-profit to define the mutual benefits received by both parties.</li> <li>• The City does not bill for Airport leases and rentals timely; therefore, the Airport Fund loses the use of revenue for a short period of time by not receiving all funds owed for lease and rental revenue on time.</li> <li>• The City does not ensure compliance with all written contract terms and City Municipal Code when in conflict.</li> <li>• The City does not have an adequate review process to ensure the completion of the public safety survey in order to consistently apply shared costs of Police, Fire and Emergency Medical Services (EMS) to the Airport Fund.</li> <li>• The City uses Airport facilities to provide office space for a department that performs general government services. The City’s General Fund is benefitting from the use of Airport facilities without compensation, in violation of state law.</li> </ul>		
<b>Status of Corrective Action: (check one)</b>		
<input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b>		
<ul style="list-style-type: none"> <li>• <i>A spreadsheet was developed to identify all leases and other relevant data that needs updating. Airport staff are working through the database (attached) to identify and resolve the leases that need immediate attention. Airport staff are also working with the</i></li> </ul>		

*GIS department to migrate all leases into an electronic format which will be a better tool for monitoring all elements of lease compliance.*

- *A new lease was prepared and approved by the Airport Commission prior to the completion of the 2013 audit period.*
- *Airport staff are working together to tighten billing and receipting procedures to ensure payments are applied correctly and billing is completed in a timely manner. Additionally, the finance department is working on procedures to provide monitoring and oversight of the financial functions of the airport.*
- *Airport staff are in the process of updating the leasing policy to ensure alignment between lease contracts and municipal code.*
- *The City has improved procedures to make sure the annual emergency services audit is completed in a timely manner. A copy of the MOU was sent to the State Auditor's Office prior to the completion of the 2013 audit period. Additionally, the finance director will conduct a meeting with the director of public safety and airport manager to further discuss the public safety survey and how best to allocate shared costs. The meeting will take place during the 2016 budgeting process (August – October 2015).*
- *A revised cost allocation plan has been developed to make sure the City's use of the Airport is appropriately funded through the general fund. The revised plan will be implemented in 2016.*

## RELATED REPORTS

### **Financial**

Our opinion on the City's financial statements and compliance with federal grant program requirements is provided in a separate report issued in September 2015, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>. That report includes a finding for a material weakness in internal controls over financial reporting regarding the classification of cash and investments and bond refunding. The report also includes a finding for material noncompliance over budget compliance.

### **Federal grant programs**

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report issued in September 2015. That report includes a federal finding regarding revenue diversion reported. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE CITY

The City of Arlington was incorporated in 1903. Located in Snohomish County, the City has a population of approximately 18,270 citizens. The City provides a full range of services including police, fire, emergency medical services, water distribution, sewage collection and treatment, street maintenance, parks maintenance, planning, a municipal cemetery and a municipal airport.

An elected, seven-member City Council and a separately elected Mayor govern the City. The City Council appoints a City Administrator to oversee the City's daily operations as well as its approximately 125 full-time employees. For the year ended December 31, 2014, the City operated on an annual budget of approximately \$50 million, including capital projects.

<b>Contact information related to this report</b>	
Address:	City of Arlington 238 N. Olympic Avenue Arlington, WA 98223
Contact:	Kristin Garcia, Finance Director
Telephone:	(360) 403-3431
Website:	<a href="http://www.arlingtonwa.gov">www.arlingtonwa.gov</a>

*Information current as of report publish date.*

### **Audit history**

You can find current and past audit reports for the City of Arlington 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>