



Washington State Auditor's Office

Independence • Respect • Integrity

Accountability Audit Report

City of Snohomish

Snohomish County

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

Published September 28, 2015

Report No. 1015232





Washington State Auditor's Office

September 28, 2015

Mayor and City Council
City of Snohomish
Snohomish, 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,

A handwritten signature in blue ink, reading "Jan M. Jutte".

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

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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 24, 2015, related to cost allocation. 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 Snohomish 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:

- Cost allocation
- Cash receipting
- Contracts and agreements

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 Snohomish. The State Auditor's Office has reviewed the status as presented by the City.

| | | |
|---|------------------------------------|-------------------------------|
| Audit Period: January 1, 2012 – December 31, 2013 | Report Ref. No.: 1012792 | Finding Ref. No.: 1 |
| Finding Caption: The City of Snohomish does not have adequate support for the allocation of shared costs. | | |
| Background: Cities are allowed to charge costs incurred by their central service functions, such as general administration, human resources, payroll and purchasing to the funds that benefit from the services. Costs charged should be in proportion to the benefit received. The City has a responsibility to adopt a fair and equitable method of distributing shared costs among departments and funds. Additionally, state law prohibits resources restricted for specific uses, such as utilities that collect usage-based fees from citizens, to benefit or subsidize other functions of government. The City received a management letter in the 2011 audit because the City did not have a cost allocation plan in place and had unsupported allocations and allocations based on estimates. In the prior audit the City received a finding because it could not provide sufficient documentation to support the allocation of costs for central service functions to both restricted and unrestricted funds for 2012 and 2013. The City did not allocate costs based on budgeted amounts and did not perform a comparison of actual expenditures to determine the reasonableness of the initial allocations and whether they are fair and equitable during fiscal years 2012 and 2013. Further, the City did not reconcile budgeted amounts to actual costs at year end during fiscal years 2012 and 2013. We recommended the City develop and follow a policy that governs how the City calculates and charges shared services costs to all funds. Costs should be charged in proportion to the level of service or benefit provided to each fund. To accomplish this, the policy should specifically require the City to: <ul style="list-style-type: none"> • Develop and use a cost allocation plan for charging shared services across funds. The plan should include a reconciliation of actual expenditures to budgeted amounts if budgeted amounts are used for cost allocations. • Document and support allocation calculations and charges, ensuring that all allocated costs are appropriate for the funds charged. | | |
| Status of Corrective Action: (check one) <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 | | |
| Corrective Action Taken: <i>The City of Snohomish has taken full corrective action and adopted a revised Cost Allocation Plan on November 4, 2014. The new plan and cost allocation methodology was implemented</i> | | |

during the true-up of cost allocations for year-end 2014. The new plan and methodology was also used in preparation of the 2015 Budget. This plan included prescribed methodology for the fair and equitable distribution of shared, indirect costs to departments and funds receiving the benefit of the indirect services such as human resources, financial, administrative and engineering services. The newly adopted Cost Allocation Plan allocates cost based on budget projections. Year-end adjustments for various allocations are trued up for the previous year, prior to final financial reporting for that year. While cost allocations assigned during the budget development process are estimates based on the best known information at the time of the allocation, the methods used will be reasonable and consistent from year to year so that minor discrepancies in the estimation process will not be material in nature nor create an inequity in cost distribution. Further, the City made significant updates to the supporting documentation and allocation calculation of charges with the creation of a cost allocation matrix. During the annual budget development process, the City Council will review the proposed allocation matrix as per the new plan.

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>.

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 noncompliance with allocable costs and reporting requirements, which resulted in \$125,923 in question costs. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Snohomish was established in 1890 and serves approximately 9,800 Snohomish citizens. The City provides services including parks and street maintenance, planning and development, water, sewer, storm water and solid waste collections, law enforcement services and general administrative and financial services.

An elected, seven-member Council governs the City. The Council selects one of its Members to serve as Mayor. In addition, the Council appoints management to oversee the City's daily operations as well as its 53 full-time employees. For fiscal year 2014, the City had total expenditures of \$26.1 million.

| 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 City of Snohomish 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.

| Contact information for the State Auditor's Office | |
|--|--|
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