



Washington State Auditor's Office

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Accountability Audit Report

City of Everson

Whatcom County

For the period January 1, 2014 through December 31, 2015

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Washington State Auditor's Office

May 19, 2016

Mayor and City Council
City of Everson
Everson, 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,

TROY KELLEY
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 identified areas in which the City could make improvements.

We recommended the City develop a formal cost allocation plan using guidance from the *Budgeting, Accounting and Reporting System* (BARS) manual that:

- Governs how the City calculates and charges all shared costs to all funds.
- Uses allocation factors that equitably distribute central service costs.
- Reconciles and adjusts estimated shared costs to actual costs at least once a year.
- Requires review and update of the policy and cost allocation plan for charging shared services costs at least annually.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to City management in a letter dated May 11, 2016, related to utility billing and adjustments. 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 Everson from January 1, 2014 through December 31, 2015.

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:

- Open Public Meetings Act
- Cost allocation
- Third party cash receipting
- Utility billing and adjustments
- Procurement

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The City of Everson does not have adequate support for the allocation of shared costs.

Background

Cities incur costs for central services, such as administration, payroll, insurance and purchasing, that are shared among funds that benefit from the services. Cities may adopt a fair and equitable method of distributing these shared costs among funds. However, state law prohibits resources restricted for certain uses, such as utilities, from benefitting other funds. Our prior two accountability audits recommended in management letters that the City establish a formal policy and retain support for allocated costs.

Description of Condition

The City allocated \$199,170 of payroll and \$12,051 of insurance costs in 2014 and \$255,703 of payroll and \$20,288 of insurance costs in 2015 to the restricted Water/Sewer and City Street funds.

The City performed two time studies to determine how employee hours benefited the City's various funds; however, the City did not use the results of these studies to make adjustments to estimated payroll and insurance allocations being charged to ensure the allocation percentages are fair, equitable and representative of the services provided.

In addition, the City transferred \$13,189 from the restricted Water/Sewer fund and \$2,021 from the restricted Street fund into the Building Capital fund for future capital projects.

The City could not demonstrate that these allocations represented a fair and equitable representation of benefits received by the restricted funds.

Cause of Condition

The City took steps to address concerns communicated during prior audits, including performing time studies. However, they did not prioritize the evaluation of the time studies to determine if current allocations of payroll and insurance costs were appropriate and supported or if percentages needed to be modified.

Effect of Condition

It appears the restricted Water/Sewer and City Street funds were charged more than the benefit received by the funds. The City is unable to demonstrate how the

allocation of shared payroll and insurance costs complied with state laws, which prohibits shifting of restricted resources to other funds. When costs charged to utility funds exceed the benefit the fund received, customers may pay higher rates than necessary for services.

Recommendation

We continue to recommend the City develop a formal cost allocation plan using guidance from the Budgeting, Accounting, and Reporting System (BARS) manual that:

Governs how the City calculates and charges all shared costs to all funds.

- Uses allocation factors that equitably distribute central service costs.
- Reconciles and adjusts estimated shared costs to actual costs at least once a year.
- Requires review and update of the policy and cost allocation plan for charging shared services costs at least annually.

City's Response

We want to thank the auditors for the information and recommendations provided during this audit. While the City has utilized a consultant to perform water and sewer rate studies to insure rates are at appropriate levels, we understand the need to provide more documentation on the cost allocation of overhead expenses such as payroll and insurance. We are working on updating our policies and procedures to include this support.

Auditor's Remarks

We appreciate the City's commitment to resolving the issue noted above and we will follow-up during our next scheduled audit.

Applicable Laws and Regulations

RCW 35A.33.122 – Administration, oversight, or supervision of utility—Reimbursement from utility budget authorized.

Whenever any code city 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 to provide services to the utility, the utility budget may identify such

services and budget for reimbursement of the city's current expense fund for the value of such services.

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 every appropriation or fund of a taxing or legislative body showing date and manner of each payment made therefrom, the name, address, and vocation of each person, organization, corporation, or association to whom paid, and for what purpose paid.

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 43.09.200 Local government accounting – Uniform system of accounting.

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they

pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 9, Interfund Cost Allocation, Section 5, Overhead Cost Allocation, states in part:

. . . a utility fund's revenues consist of user fees that are restricted to paying for the costs of operating the utility, including necessary capital and debt service costs. These user fees cannot be used to support other funds or general government activities that benefit the public at large. Utility funds and other funds with restricted revenue sources should only reimburse the general fund for costs incurred to render services to those funds

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Everson, incorporated in 1929, serves approximately 2,500 citizens in Whatcom County. The City provides public safety, street improvements, parks and recreation and general administrative services. In addition, the City owns and operates a water distribution system and a sewage collection system. For fire protection, the City annexed into Whatcom County Fire Protection District No. 1.

An elected, five-member City Council and an independently elected Mayor govern the City. Council Members serve staggered, four-year terms. For fiscal years 2014 and 2015, the City had 17 employees and operated on budgets of \$1.7 million and \$1.8 million, 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 City of Everson 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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