



Washington State Auditor's Office

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Accountability Audit Report

City of Sunnyside

Yakima County

For the period January 1, 2013 through December 31, 2015

Published September 15, 2016

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Washington State Auditor's Office

September 15, 2016

Mayor and City Council
City of Sunnyside
Sunnyside, 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 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:

- 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 the amounts charged and support for the charges.
- Periodically review and update the policy and the cost allocation plan for charging shared services costs.

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 September 8, 2016 related to internal control weaknesses over court accounting activities. 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 Sunnyside from January 1, 2013 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:

- Payroll
- Disbursements and credit card purchases
- Utility billings, cash receipts and adjustments
- City pool activities
- Municipal court
- Lodging tax – hotel motel tax
- Cost allocation plan

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The City of Sunnyside does not have adequate support for its allocation of shared costs to restricted funds.

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. They should charge costs 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 and to document the benefit received when applying these charges. 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.

Description of Condition

We reviewed the allocation of shared costs at the City and noted:

- The City does not have written policies or procedures regarding cost allocations.
- The City does not have a cost allocation plan and could not provide documentation to support the allocation of shared costs for central service functions to restricted funds.
- The City did not compare allocated costs to actual expenditures to determine reasonableness of the allocations.
- The City did not report the allocated costs correctly in the accounting system.

We communicated this issue to the City during the past two audits.

In addition, it appears the City is not allocating costs appropriately for internal service funds, such as the Information Technology, Equipment Rental and Public Work Service Center funds. Costs appear to be allocated based on budgeted amounts for the year but are not reconciled to actual costs at year end.

Cause of Condition

The City continued to use an old allocation method developed in 2009 for 2013, 2014, and 2015 and did not retain support to show how the method was fair and

equitable between funds. In addition, turnover in key positions and lack of documentation prevent current staff the adequate understanding of how costs have been allocated. Further, the City did not take steps to address our prior audit recommendations.

Effect of Condition

For 2013 and 2014, the City was unable to determine amounts actually allocated to restricted funds as the costs were not clearly recorded in the general ledger. For 2015, the City incorrectly recorded the costs as transfers instead of a reimbursement of a service. Based on a review of 2015 transfers, it appeared the City allocated the following central service costs to its restricted funds:

Water	\$178,448
Sewer	\$178,448
Garbage	\$23,882
Ambulance	\$59,821
Storm Water	\$40,489
<u>Total</u>	<u>\$481,088</u>

Without support for the allocation of costs, the City cannot ensure the amounts were fair, equitable or representative of the services each fund received. Further, the City is unable to show that it complied with state laws that prohibit shifting restricted resources to other funds. Increased allocated costs to City utilities may result in higher utility rates.

Recommendation

We again recommend 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:
 - 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 the amounts charged and support for the charges.
 - Periodically review and update the policy and the cost allocation plan for charging shared services costs.

City's Response

The City has been working on this issue for several years. It revised its cost allocation in 2013 and we are again implementing a new system to allocate actual costs for services provided to restricted funds in a manner which allocates costs based on actual costs where appropriate and available and reasonable costs where the benefit to the restricted fund is clear but actual costs may not be readily available. Costs will be charged to departments based on the benefit to that department.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City 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 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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Sunnyside Yakima County January 1, 2013 through December 31, 2015

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

Audit Period: January 1, 2012 through December 31, 2012	Report Ref. No.: 1011463	Finding Ref. No.: No. 1
Finding Caption: The City does not have adequate oversight of payroll operations to safeguard public resources.		
Background: In 2012 one person was responsible for all human resource and payroll activity, without oversight or monitoring over these functions. This employee: <ul style="list-style-type: none"> • Enters new employees into the accounting system, including pay rate and benefits. • Creates payroll checks in the accounting system. • Prints checks with the authorizing signatures of the City Manager and Finance Director already affixed. • Delivers the checks to employees. <p>Final payroll reports are not reviewed by an independent person. Also, the Council did not approve payroll through the minutes as required by state law until October 2012. After October, the Council started approving payroll in total but does not get a list of payments by employee.</p> <p>We noted the following additional concerns:</p> <ul style="list-style-type: none"> • The Payroll Clerk is responsible for submitting benefit information and payments to each benefit vendor. No one reviews this information to ensure benefit information is submitted correctly or timely. • Timesheets for some City Police Department employees include “work differential” time. The City does not have any guidance on how this “work differential” time is supposed to be recorded on timesheets or how it is supposed to be reported in the payroll system. As a result, there is no way of ensuring all employees are charging this time appropriately. • City ordinance restricts vacation and sick leave balances to a maximum amount each year. The City does not monitor vacation or sick leave balances to ensure the ordinance is followed. 		

<ul style="list-style-type: none"> Several employees receive a cell phone allowance each month. The City does not have a policy authorizing this cell phone allowance, setting an amount, or identifying what employee positions would be given this allowance. Further the City does not always retain documentation supporting who was approved to receive the allowance. 		
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>In 2015, a payroll clerk was hired to segregate the duties of payroll from the human resource functions. The payroll clerk is a part of the finance work group and is supervised by the Director of Finance while the Human Resource Officer is supervised by the City Manager. The payroll clerk is currently in training by the Human Resource Officer to take over fully the functions of payroll. The City is currently in the process of implementing an internal control process to ensure accuracy of compensation and hours worked. Payroll and benefit reports are reviewed by the Director of Finance or City Manager prior to payment to employees. Benefit reports and benefit vendors are in the process of being audited by the Director of Finance. The work differential allowed in the Police Support union contract was eliminated in the last round of union negotiations and is no longer an issue. Quarterly leave balance reports are disseminated to department directors for review and monitoring. We are also in the process of converting our payroll software to be within the same system as our financials which will allow for more accurate reporting and support from the provider. The City is in the process of updating all policies city wide including the cell phone allowance.</i>		
Audit Period: January 1, 2012 through December 31, 2012	Report Ref. No.: 1011463	Finding Ref. No.: No. 2
Finding Caption The City does not have adequate oversight of disbursements to safeguard public resources.		
Background: The City pays approximately \$7.3 million to vendors each year. The City has not established overall policies, procedures and controls designed to protect public resources from misuse, loss or misappropriation. During our past audits, we have made multiple recommendations to the City Council and management on strengthening internal controls over vendor payments. The current audit identified continuing, significant control weaknesses in these areas. Specifically: <ul style="list-style-type: none"> The City frequently processes “quick checks” that are printed and mailed prior to Council approval. There is no policy over the use of quick checks. Also, the City frequently gives the check to the individual requesting the quick check instead of mailing it directly to the vendor. There were 127 transactions processed through quick checks in 2012, for a total amount of \$1,307,250. 		

- Department supervisors do not always approve departmental purchases and employees do not have to get pre-approval for making purchases on open accounts.
- There is not an adequate review of vendor payments to ensure they are properly supported, paid accurately or allocated to appropriate departments.
- The City does not have a credit card policy restricting the use of the cards or providing instructions on credit card procedures. Employees do not have to receive pre-approval to purchase on City cards.
- Credit cards are paid electronically to the bank on the due date, based on the credit card balance. This is not paid through the normal accounts payable process and the transactions are not always reviewed and approved by the Accounts Payable Supervisor or the Council prior to payment.

Status of Corrective Action:

Fully Corrected
 Partially Corrected
 Not Corrected
 Finding is considered no longer valid

Corrective Action Taken:

The city has taken many steps since 2013 to improve its oversight of disbursements. Tighter controls have been placed on the use of credit cards, charge accounts and quick checks. In 2015, the City completely revamped the accounts payable process. Quick checks are no longer allowed or a part of the process. Vendor payments are reviewed by the Financial Analyst after input by the Accounts Payable Clerk with a final review by the Director of Finance to ensure accuracy, are supported by proper documentation and are allocated to the proper departments. Accounts Payable vendor checks are processed weekly for timely payment and reports submitted to City Council, City Manager and Department Directors in advance of City Council meetings for review and questions. Department supervisors review departmental purchases and limits are placed on the number of open accounts/employees allowed to make purchases. The City does have a credit card policy that was in effect at the time of this audit and is in the process of updating all its policies including the credit card policy. Credit cards are paid electronically on the due date, but are paid through the accounts payable process. Credit card transactions are reviewed using the same process as all other City vendor payments described above and sent to City Council for approval through the same process.

Audit Period: January 1, 2012 through December 31, 2012	Report Ref. No.: 1011463	Finding Ref. No.: No. 3
Finding Caption The City of Sunnyside does not have adequate support for its allocation of shared costs to restricted funds.		
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. They should charge costs 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 and to document the benefit received when applying these charges. 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. We reviewed the allocation of shared costs at the City and noted: <ul style="list-style-type: none"> • The City could not provide documentation to support the allocation of costs for central service functions to restricted funds. • The City does not compare estimated costs to actual expenditures to determine reasonableness of the allocations. • The City does not have written policies or procedures regarding cost allocations. • The City allocates costs, such as salaries, supplies and utility charges to one department at a time. The method is not equitable and may result in the City allocating the same costs multiple times and to departments that receive no actual benefit from the services. In addition, it appears the City is not allocating costs appropriately for internal service funds, such as the information technology fund. Costs appear to be allocated based on budgeted amounts for the year but are not reconciled to actual costs at year end.		
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The City has been working on this issue for several years. It revised its cost allocation in 2013 and we are again implementing a new system to allocate actual costs for services provided to restricted funds in a manner which allocates costs based on actual costs where appropriate and available and reasonable costs where the benefit to the restricted fund is clear but actual costs may not be readily available. Costs will be charged to departments based on the benefit to that department.</i>		

Audit Period: January 1, 2012 through December 31, 2012	Report Ref. No.: 1011463	Finding Ref. No.: No. 4
Finding Caption The City of Sunnyside lacks adequate internal controls to ensure utility bills and adjustments are accurate and supported, and delinquent accounts are actively pursued.		
Background We reviewed the internal controls over utility billings, adjustments and cash receipting and noted the following weaknesses: <ul style="list-style-type: none"> • The City does not have policies or procedures over the utility billing or cash receipting systems. • The Utility Clerk is responsible for preparing utility bills, adjusting utility accounts and mailing the utility bills each month. She also collects utility payments and posts adjustments to receipts. The City did not monitor to compensate for this lack of segregation of duties to ensure it could detect or prevent misappropriation. • No one reviews the utility activity on a regular basis. A supervisor reviews portions of the pre-billing report when the Utility Clerk requests a review. Also, the supervisor reviews the final billing report in total instead of by individual account. No one verifies that the accounts were billed correctly or that accounts were charged the appropriate rate. • The City had \$55,873 of utility adjustments in 2012. There is no independent review of an adjustment report to ensure all adjustments are reasonable. We reviewed 76 billing and penalty adjustments and found 11 were not supported, 12 were not reviewed and 61 late fee adjustments totaling \$610 did not appear reasonable. • The City does not have a process for ensuring that all utility accounts are billed on a monthly basis. • The Utility Clerk and cashiers receipt utility payments and also make adjustments to receipts. In 2012, \$92,109 was adjusted through the receipting system. There is no independent review of receipt adjustments and support is not always retained to explain the purpose. We reviewed 13 receipt adjustments and found 10 were not supported or reviewed, one adjustment for \$716 did not appear reasonable and six did not have enough information to determine whether they were reasonable. 		
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Utility billing processes in 2015 was revamped to include a monthly checklist provides a list of reports and processes that are prepared/completed by the Utility Billing Clerk and reviewed</i>		

Director of Finance. Each report is reviewed including a detailed report of all adjustments with supporting documentation attached for each adjustment. The Utility Billing Clerk is the only person authorized to make adjustments for utility accounts. Monthly reviews of voids/adjustments to cash receipts began in 2016. The City took steps to collect past due balances for customers that owe balances on their current bill by changing the way shut-off for non-payment was handled. In the past, the City only collected the past due amount, not the entire balance of the account as it states in the Sunnyside Municipal Code. Customers were notified of the change in practice and then it was implemented in the following month. This brought the 30 day past due accounts to zero. Over 90 day accounts were sent letters to attempt collection, the City wrote off accounts that were uncollectible and practiced better collection methods over all. New rates for water and garbage collection were established in January, 2015 and a process for verifying the correct rates was implemented.

Audit Period: January 1, 2012 through December 31, 2012	Report Ref. No.: 1011463	Finding Ref. No.: No. 5
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Finding Caption

The City does not have adequate oversight over pool activities to safeguard public resources.

Background:

The City operates an outdoor pool that is open during the summer. In 2012 the City recorded \$53,583 in pool revenue for daily admissions, season passes, 10-day passes, swimming lessons and facility rentals.

The City does not have policies or internal controls in place to monitor pool activities to ensure all revenue earned at the pool is properly receipted and deposited.

The following control weaknesses were identified:

- Multiple cashiers receipt into the same cash register.
- Voids and adjustments on the register are not always approved by a supervisor.
- Not all funds collected are receipted through the cash register. Further, the pool does not retain adequate documentation to form an expectation of how much money it should have received.
- No one reconciles the amount collected through the cash register to the amount of the deposit to ensure all funds are accounted for. In addition, no one verifies that all cash register reports are accounted for and that all money collected for each day is transmitted to the City Hall and included in the City Hall's deposit.
- Employees who receipt cash at the pool also sign up customers for swim lessons, pool rentals and season passes without oversight by another person or supervisor to achieve proper segregation of duties.

Status of Corrective Action:

Fully
Corrected

Partially
Corrected

Not Corrected

Finding is considered no
longer valid

Corrective Action Taken:

The city has installed new cash drawers that are integrated with the city's main financial accounting system, provides annual training to all cashiers, and has eliminated the use of "shared" drawers. Additionally, the Recreation Supervisor and Finance Director conduct periodic audits of the cash drawers to ensure compliance. We will continue to monitor and evaluate internal controls as necessary.

RELATED REPORTS

Financial

Our opinion on the City's 2015 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>.

Special investigations

During the current audit period, the State Auditor's Office issued a report on a misappropriation of public funds at the City. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Other reports

During the current audit period, the State Auditor's Office issued an examination report on the City's management's assertion regarding pensionable wages and contributions reported to the Washington State Department of Retirement Systems. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Sunnyside serves approximately 15,340 citizens in Yakima County. The City provides a full range of municipal services including police, fire, Municipal Court, public improvements, sanitation, water utility, community development and parks and recreation.

An elected, seven-member Council governs the City. The Council elects one of its members to serve as Mayor for a two-year period. The Council also appoints management to oversee the City's daily operations as well as its approximately 105 full-time employees. The City operates on an annual budget of approximately \$22 million budget.

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 Sunnyside 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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