



Washington State Auditor's Office

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Accountability Audit Report

City of Arlington

Snohomish County

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

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Washington State Auditor's Office

December 29, 2016

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,

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 noted certain matters that we communicated to City management in a letter dated December 5, 2016, related to the Police Department and internal controls over procurement cards. 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, 2015 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 compliance
- Airport revenues (finding follow-up)
- Cash receipting (management letter follow-up)
- Hotel-motel lodging tax revenues (management letter follow-up)
- Police Department review
- General disbursements

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Arlington
Snohomish County
January 1, 2015 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 Arlington. The State Auditor’s Office has reviewed the status as presented by the City.

Audit Period: January 1, 2013 – December 31, 2013	Report Ref. No: 1013812	Finding Ref. No: 2013-001
Finding Caption: The City of Arlington lacks adequate internal controls over Airport financial activities.		
Background: We reviewed the internal controls over leasing activities and cost allocations at the Airport. Our audit found:		
<ul style="list-style-type: none"> • The City does not have contracts in place for all space leased at the Airport. • 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. • 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. • The City does not ensure compliance with all written contract terms and City Municipal Code when in conflict. • 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. • 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. 		
Status of Corrective Action:		
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected
		<input type="checkbox"/> Finding is considered no longer valid

Corrective Action Taken:

- *The finance department performed and completed a review of all lease files and created a database to identify all leases and other relevant data that needs updated and monitored (i.e. lease and insurance expiration dates). Relevant lease data is also stored in the database as another tool to monitor for lease compliance. The finance department runs a report on a monthly basis to identify items for follow up. Items on the report include items such as past due accounts, lease expiration dates and insurance expiration dates.*
- *A new lease with the non-profit was prepared and approved by the Airport Commission prior to the completion of the 2013 audit period.*
- *Effective March 2016, the airport billing function is being performed by the finance department. Additionally, the finance department is working on procedures to provide monitoring and oversight of all financial functions of the airport.*
- *Airport staff have updated the leasing policy to ensure alignment between lease contracts and municipal code.*
- *The finance department has established a system within the budget process that ensures the public safety survey is completed in a timely manner and in accordance with the FAA MOU. The finance director has developed a survey schedule which will provide for timeliness of conducting the survey and consistency for applying shared costs.*
- *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 was implemented in the 2016 budget.*
- *The community and economic development department has repaid all rents due to the airport for leased office space for 2014, 2015 and is currently paying rent for 2016. A lease was executed on February 9, 2016.*

Audit Period: January 1, 2014 – December 31, 2014	Report Ref. No.: 1015133	Finding Ref. No.: 2014-001	CFDA Number(s): 20.106
Federal Program Name and Granting Agency: Airport Improvement Grant – Department of Transportation		Pass-Through Agency Name:	
Finding Caption: The City's internal controls were not adequate to ensure Airport revenues were not diverted to support general government activities and that late fees were assessed in accordance with lease agreements.			

Background:

The City reported federal expenditures totaling \$1,121,982 in 2014 for two projects paid for by the Airport Improvement Program Grant. These funds were provided by the United States Department of Transportation Federal Aviation Administration (FAA). Program requirements require that all revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

Our audit focused on the City’s internal controls to ensure it was collecting revenues generated by the Airport and expending those funds for capital and operating costs of the Airport. We found:

- The City uses Airport facilities and revenues to provide office space at no cost for a City department that performs general government services. As a result, the City’s General Fund is benefitting from the use of Airport revenues and facilities without compensation, which is considered to be revenue diversion.
- The City has not properly applied the late fee provisions of its Airport lease agreements, which require billing these charges to tenants when payments are received after the due date.

Status of Corrective Action:

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

Corrective Action Taken:

- *The Community and Economic Development department repaid all rents due to the Airport for leased office space for 2015 and will continue to pay rent for 2016 and beyond.*
- *The airport billing function was moved to the Finance department in March 2016. Late fees are being billed in accordance with lease terms.*

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 Arlington was incorporated in 1903. Located in Snohomish County, the City has a population of approximately 18,490 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 128 full-time employees. For the year ended December 31, 2015, the City operated on an annual budget of approximately \$50 million, including capital projects.

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 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.

Contact information for the State Auditor's Office	
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