



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Accountability Audit Report

City of Snohomish

Snohomish County

For the period January 1, 2012 through December 31, 2013

Published October 20, 2014

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Washington State Auditor Troy Kelley

October 20, 2014

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,

TROY KELLEY
STATE AUDITOR

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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 continue to 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 and support allocation calculations and charges, ensuring that all allocated costs are appropriate for the funds charged.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the City of Snohomish from January 1, 2012 through December 31, 2013.

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:

- Permitting
- Land purchase
- Cost allocation
- Accounts payable
- Senior center
- Payroll

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. 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 previous audit because the City did not have a cost allocation plan in place and had unsupported allocations and allocations based on estimates that totaled \$2,068,230 and \$1,337,372 in 2010 and 2011, respectively. Based on our recommendations, the City's previous finance director created a cost allocation plan that was approved by Council for fiscal years 2012 and 2013.

Description of Condition

The City 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.

For 2012, the City was unable to provide supporting documentation to determine the total amount allocated to both restricted and unrestricted funds.

For 2013, the City allocated the following central service costs to restricted and unrestricted funds:

Fund:	Amount Allocated:
General Fund	\$382,050
Street Fund	\$159,234
Water Fund (restricted)	\$219,366
Wastewater Fund (restricted)	\$100,212
Storm Water Fund (restricted)	\$296,635
City Shop Fund	\$102,413
Information Services Fund	\$4,554
Total Restricted:	\$616,213
Total Unrestricted:	\$648,251
Total:	\$1,264,464

Cause of Condition

The City allocated costs to restricted funds during 2012 and 2013 based on estimates without documentation to support that the amounts were fair and equitable. The individual who developed the plans no longer works for the City and the current employees were not aware of how the calculations were derived. In addition, employees at the City were unaware that they were required to reconcile budget allocation estimates to reflect actual expenditures at year end.

Effect of Condition

As a result of the conditions identified above, the City was unable to provide supporting documentation to show what funds were allocated in fiscal year 2012. In addition, the City is unable to demonstrate how \$616,213 out of the \$1,264,464 in shared costs allocated in 2013 complied with state laws that prohibit shifting restricted resources to other funds. Further, without support to show how these amounts are fair, equitable and representative of the central services provided, the increased costs to city utilities may result in higher rates, or the cost of parks or street maintenance may be undercharged.

Recommendation

We continue to 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 and support allocation calculations and charges, ensuring that all allocated costs are appropriate for the funds charged.

City's Response

During the course of the 2012-2013 financial audit fieldwork, the new City Finance Director and Senior Accountant discovered that the cost allocation plan and supporting documentation was not sufficient nor compliant with State law. Staff notified the lead field auditor, as well as, provided all spreadsheets found that were believed to be used in determining the 2012-2013 allocations; however, were not reconcilable.

City of Snohomish staff immediately started work on a new, updated cost allocation plan and supporting cost matrix that complies with applicable laws. Field Auditors were provided a copy of the draft Cost Allocation Plan and approved. The cost allocation matrix was developed as a tool to prepare for the 2015 Budget Cost Allocations as well as serve as a tool for reconciling 2014 cost allocations so that staff have supporting documentation for the 2014 year-end true-up of costs to the benefitting funds/departments.

The newly proposed Cost Allocation Plan and cost matrix were presented to the Snohomish City Council for preliminary discussion and Council feedback and will be presented to the City Council for formal consideration and approval on November 4, 2014 as part of the budget development processes.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues identified above. We will follow up on the status of this finding during the next regularly scheduled 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 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 35A.33.122, Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized, states:

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.

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements.

INFORMATION ABOUT THE CITY

The City of Snohomish, established in 1890, serves approximately 9,000 Snohomish County citizens. The City provides services including administrative, planning, water, sewer, solid waste collection, police and public works.

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 70 employees. For fiscal year 2012 and 2013, the City had total expenditures of \$24.9 million and \$24.5 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 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.

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