



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Accountability Audit Report

City of Granger

Yakima County

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

Published February 19, 2015

Report No. 1013642





Washington State Auditor Troy Kelley

February 19, 2015

Mayor and City Council
City of Granger
Granger, 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

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	6
Related Reports	13
Information About The City	14
About The State Auditor's Office	15

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 improve controls over its Municipal Court, including:

- Segregate court duties to ensure transactions are monitored and reviewed by an independent person.
- Reconcile the Municipal Court trust bank account to JIS monthly.
- Run all monthly audit reports and have them reviewed by an independent person.
- Follow up on any inconsistencies in monthly audit reports.
- Establish and follow formal policies for sending overdue accounts to collections.

We also recommended the City distribute shared services costs to each fund that represent the actual amount of service or benefit each fund receives. Specifically, the City should:

- Develop and follow a policy that governs how the City calculates and charges shared services costs to all funds. The policy should require the City to:
 - Document the rationale for charging shared services to each fund.
 - Retain documentation to support charges to each fund and how it calculated them.
- Adjust allocations to reflect actual amounts when estimated or budgeted amounts are used.
- Periodically review and update the policy and cost allocation plan for charging shared service costs.

These recommendations were included in our report as findings.

We also noted certain matters that we communicated to City management in a letter dated February 12, 2015, related to budget compliance and purchases and payments. 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 Granger 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:

- Municipal Court
- Purchases and payments
- Credit cards
- Budget monitoring
- Cost allocation plans
- Treasurer's checks
- Police department – security services
- Payroll

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2013-001 The City of Granger 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.

Description of Condition

Our audit found the City charged the following shared costs to its utility funds. The City could not provide documentation to show amounts charged to the funds were fair and reasonable.

	2012	2013
Water/Sewer Fund	\$50,680	\$76,751
Garbage Fund	\$22,331	\$30,729
Irrigation Fund	\$3,873	\$17,712
Totals	\$76,884	\$125,192

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 to utility funds that totaled \$157,499 and \$181,717 in 2010 and 2011, respectively.

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. 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

The City is unable to demonstrate that allocated shared costs complied with state laws that prohibit shifting restricted resources to other funds. Further, when costs charged to utility funds exceed the benefit the fund received, utility customers may pay higher utility rates than necessary for their services.

Recommendation

We again recommend the City distribute shared services costs to each fund that represent the actual amount of service or benefit each fund receives. Specifically, the City should:

- Develop and follow a policy that governs how the City calculates and charges shared services costs to all funds. The policy should require the City to:
 - Document the rationale for charging shared services to each fund.
 - Retain documentation to support charges to each fund and how it calculated them.
- Adjust allocations to reflect actual amounts when estimated or budgeted amounts are used.
- Periodically review and update the policy and cost allocation plan for charging shared service costs.

City's Response

The City of Granger will work towards adopting a policy plan regarding overhead cost allocations establishing a consistent method of determining accurate cost allocations. This policy shall identify the requirements to support charges to all funds. The City understands that the general funds can be used to support any fund; however, restricted funds may only share costs for the value of services provided for those funds. The City will consider prior year costs when updating a new year's cost allocations and will review and update this plan twice per year to accurately adjust any estimated allocations. The designated review period shall be July 1st of each year. Cost allocations will be based on each positions primary job responsibilities which will include a variety of factors. The City of Granger will seek guidance to move forward and construct an appropriate cost allocation plan.

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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2013-002 The City does not have adequate internal controls over its municipal court accounting activities, increasing the risk undetected errors or losses could occur.

Description of Condition

The City of Granger's Municipal Court collects the Police Department's fines for traffic infractions and criminal citations. Money collected is recorded into the Judicial Information System (JIS) and is deposited into the Court's trust bank account. In 2012 and 2013 the Municipal Court collected \$62,514 and \$59,470, respectively.

We reviewed the internal controls over Municipal Court activity including cash receipting, trust account activity, accounts receivables and adjustments and the City's review of JIS audit reports and noted:

- Duties at the Court are not segregated. The Court Clerk receipts cash, sets up accounts, makes adjustments and reconciles monthly activity without an independent review.
- The Court does not reconcile the municipal court trust bank account to the JIS balance. As of December 2013 the bank balance was \$900 less than the JIS balance.
- During 2013 we found JIS monitoring reports were ran, but were not consistently reviewed by an independent employee. Currently none of the monitoring reports are being generated and the Court is no longer running the following reports; accounts payable adjustment, adjusted receipts, accounts receivable adjustments, deleted cases, non-cash credits, overpayments, restitution out-of-balance, restitution adjustments and bank reconciliations.
- The Court is not current on sending old accounts to collections and the City does not have formal policies in place for the collection of overdue accounts. As of December 31, 2013 the Court had \$13,180 in accounts aged over 365 days which have not yet been sent to collections.

We also performed testing over adjustments and JIS report monitoring and noted the following concerns:

- We tested 10 accounts receivable adjustments totaling \$1,789 and found the City was unable to provide supporting documentation for the adjustments.
- The restitution out-of-balance report showed the accounts receivable balance was out of balance by \$250 for 2013. No effort has been made to reconcile this amount.
- The court does not reconcile JIS reports for amounts sent collections to a listing provided by the collections company to ensure that accounts removed from active status in JIS were actually sent to collections.

Cause of Condition

Similar issues were reported in the prior two audits, but these were not communicated to the current Court Clerk. Additionally, the City has not devoted adequate time and resources to ensure internal controls are in place over the Municipal Court activity and staff is adequately trained.

Effect of Condition

The lack of control and oversight over the municipal court activity increases the risk that misappropriation or misuse of department resources could occur and not be detected in a timely manner. Furthermore, it is unlikely the City would be able to assign responsibility for a loss if one were to occur.

Recommendation

We recommend the City:

- Segregate court duties to ensure transactions are monitored and reviewed by an independent person.
- Reconcile the Municipal Court trust bank account to JIS monthly.
- Run all monthly audit reports and have them reviewed by an independent person.
- Follow up on any inconsistencies in monthly audit reports.
- Establish and follow formal policies for sending overdue accounts to collections.

City's Response

The City of Granger continues to work with the City of Sunnyside towards outsourcing the municipal court functions and proceedings. Granger has an existing proposed and tentatively approved Municipal Court Agreement; however, this agreement was put on hold as the new judicial changes occurred in 2014. These judicial changes regarding the limit on caseloads per defense attorneys caused a pause on this item as many defense attorneys state wide began to request pay increases. To date the City of Sunnyside has informed Granger that they are negotiating contract costs with their defense attorneys. Upon completion, the Granger Municipal court can move forward and begin the transfer process of courts. In the meantime, the Municipal Court will reconcile monthly account activity and submit that information to a City Hall Clerk for a second review. Monthly and appropriate reports will begin to be generated by the Court Administrator and reviewed by City Hall staff Clerk II. The municipal court is in the process of updating and accurately submitting old accounts to collections in a timely matter. All adjustments will be reviewed and signed off by the City Clerk-Treasurer for approval. The City of Granger will have to seek other options such as possibly increasing hours of work when necessary or seek outside assistance from a more experienced individual to address the issues in a timely matter.

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 43.09.200, Local government accounting— Uniform system of accounting, states in part:

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.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has

ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Original Supporting Documentation, states in part:

Local governments are responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents - regardless of physical form - necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW 43.09.200).

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 Granger operates with a mayor-council form of government consisting of five elected Council Members and a separately elected Mayor. The City serves approximately 2,800 citizens and operates on a \$4.2 million budget. The City's services include a City Hall, Municipal Court, Police Department, Public Works Department and a volunteer Fire Department. The City has approximately 20 full-time employees, not including volunteer firefighters.

Contact information related to this report	
Address:	City of Granger P.O. Box 1100 Granger, WA 98932
Contact:	Liliana Torres, Deputy Clerk Treasurer
Telephone:	(509) 854 1725
Website:	www.grangerchamber.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Granger 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	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov