



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Accountability Audit Report**

# **City of Tumwater**

**Thurston County**

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

**Published March 26, 2015**

**Report No. 1013826**





## Washington State Auditor Troy Kelley

March 26, 2015

Mayor and City Council  
City of Tumwater  
Tumwater, 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 policies that govern how the City calculates and charges shared service costs, as well as Equipment Rental and Reserve Fund charges, to all funds.

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 Tumwater from January 1, 2013 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:

- General revenues and expenditures
- Open Public Meetings Act
- Financial health
- Third party cash receipting
- Golf course
- Cost allocation
- General disbursements
- Credit cards
- Small and attractive assets
- Significant internal control systems:
  - Payroll and benefits
  - Utilities

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2013-001 The City of Tumwater allocated shared service costs without adequate documentation to support the costs were fair and equitable. The City also did not adopt a plan to support asset rental rates.**

### *Background*

The City incurs costs from its shared services, such as General Administration, Human Resources, Legal, and Financial Services that it shares among all departments that benefit from these services. The City has a responsibility to adopt a fair and equitable method of distributing these shared costs. Additionally, state law prohibits resources restricted for certain uses, such as utilities, from benefitting other funds.

The City also operates an Equipment Rental and Reserve Fund to centralize the management of costs associated with equipment and vehicles. This includes setting aside money for future replacement and routine maintenance. The City is required to establish rates sufficient to recover costs of the fund. The established rate is charged to all funds that use this equipment monthly.

### *Description of Condition*

We audited the City's cost allocation plan as part of the fiscal year 2011 audit. We issued an audit finding for concerns over the City's lack of documentation to support costs and the lack of a formal plan. We followed up on these issues during the current audit and noted the following conditions continue to exist:

- The City could not provide documentation to support the allocation of costs for shared service functions to all departments or funds, including those with restricted resources. The City allocates costs based on budgeted amounts and does not compare actual expenditures to determine reasonableness of the initial allocations.
- The City uses spreadsheets to calculate and support the allocation of operating costs for the Equipment Rental and Reserve Fund, but does not have a documented plan to support the allocations.

### *Cause of Condition*

The City has not dedicated the necessary resources to ensure charges for shared costs for support services were appropriately allocated and supported.

Although the City has processes in place to calculate the allocation of operating costs for the Equipment Rental and Reserve Fund, the City has not taken the final step of adopting a plan to support its methodology.

### ***Effect of Condition***

As a result of the conditions identified above, we noted:

- The City allocated \$974,833 in Administration, Human Resource, Legal costs and Financial Services to its restricted funds, including the utility and golf course funds, without documenting how the amount was fair and equitable. Increased costs to the City utilities may result in higher utility rates. Additionally, the City is unable to demonstrate that it complied with state laws that prohibit shifting restricted resources to other funds.
- In addition, the City allocated equipment rental costs from the Equipment Rental and Reserve Fund without a plan to support the rate development and allocation of such costs.

### ***Recommendation***

We recommend the City:

Develop and follow policies that governs how the City calculates and charges shared service costs and Equipment Rental and Reserve Fund charges to all funds. Costs charged to each fund should be proportional 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 charges and support for the charges, ensuring that all allocated charges are applicable to the funds charged for the shared services.
- Review and update the cost allocation plan for charging shared service costs at least annually.

### ***City's Response***

*City staff implemented certain procedures to gain the information needed for a shared (administrative) service cost study and allocation methodology. First, it distinguished between departments and employees that provide and that receive*

*the shared services. It also identified those departments that do both. Second, it identified expenditures of materials, supplies and services that can and should be billed directly by the vendor to direct service departments rather than to an administrative department. For example, the cost of utility bill forms, bill printing and bill postage is now charged directly to the utilities and not Finance. This simplifies any future allocations. Thirdly, the Finance department developed a list of administrative service codes for time recording. As explained in response to the 2011 audit finding, the City had attempted to address employee cost allocation with a time tracking sampling approach. In late 2012, that system was expanded to a full-year timesheet-based system. The year 2013 was the first full year where we could collect that data. We believe that ultimately taking a three-year average approach will be the most realistic reflection of actual workloads as individual work will fluctuate from year to year with various City initiatives and projects. That data would first be available for use in 2015.*

*The City agrees that it is time to use that data in an appropriate methodology. By the same token, the City has been mindful of recent economic challenges and of resource limitations. As a result, it chose to first align general government services, such as Police, Fire, Planning with available funding sources. This was important work in the last few years and these changes also required significant time involvement from the Finance department. Staff believes that the 2013 shared service cost amounts are likely to be reasonable and has attempted to make adjustments from year to year, that reflected changes in operations.*

#### *Equipment Rental and Reserve Fund*

*The City follows required Equipment Rental and Reserve Fund requirements of charging internal fees to cover operating costs and future reasonably estimable costs of equipment replacement. The portion to cover operating costs is based on prior year actual expenditures. The portion to cover future replacement costs is based on acquisition cost (less estimated salvage value), an estimated inflation factor, and the estimated useful life of the asset. City staff believes that the charges and reserves are appropriate and will make every effort to document its policies and procedures to formalize its long-time practice.*

### ***Auditor's Remarks***

We appreciate the City's response and recognize that the City is committed to ongoing quality improvement and working to improve its internal controls.

We look forward to working with the City on this issue and will follow up on it during the next 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.



## RELATED REPORTS

### **Financial**

Our opinion on the City's financial statements is provided in a separate report issued in March 2015, 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 Tumwater is the third largest city in Thurston County with a population of 18,800 citizens. The City provides a full range of municipal services including fire, police, water and sewer, highway and street maintenance, parks and recreation, permits and inspections as well as general administrative services. The City also operates Tumwater Valley Municipal Golf Course.

An elected, seven-member Council and a separately elected Mayor govern the City. The City has a strong mayor form of government. The Mayor appoints and the Council confirms management to oversee the City's daily operations as well as its 165 employees. For the 2013-2014 biennium, the City operated on a general fund expense budget of \$42.8 million.

### 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 Tumwater 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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