



Washington State Auditor's Office

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Examination Report

City of Sunnyside

Yakima County

For the period July 1, 2014 through June 30, 2015

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Washington State Auditor's Office

September 1, 2016

Council
City of Sunnyside
Sunnyside, Washington

Marcie Frost, Director
Department of Retirement Systems
Olympia, Washington

Examination Report

The Washington State Department of Retirement Systems (DRS) administers eight public retirement systems for state and local government employees, with 15 different plans within those systems. These systems serve nearly 700,000 current and former public employees. Both public employers and their employees contribute to the retirement plans and the amounts they contribute are calculated as a percentage of the employee's pay.

Government entities are responsible for reporting accurate and complete pensionable wage and contribution information to DRS in accordance with the applicable retirement plan's requirements set forth in Title 415 of the Washington Administrative Code. The plan's actuarially derived pension liabilities are dependent on demographic data of the plan participants, which is referred to as census data. Significant elements of census data may include: date of birth; date of hire or years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; and employment status (active, inactive, or retired).

Please find attached our examination report on the City of Sunnyside.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 25, 2016

INDEPENDENT ACCOUNTANT'S REPORT

**City of Sunnyside
Yakima County
July 1, 2014 through June 30, 2015**

Council
City of Sunnyside
Sunnyside, Washington

Marcie Frost, Director
Department of Retirement Systems
Olympia, Washington

We have examined the City of Sunnyside's management's assertion that pensionable wages and contributions reported to the Washington State Department of Retirement Systems (DRS) for the year ended June 30, 2015 are accurate and complete in accordance with applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

The City's management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, it included examining on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our adverse opinion.

As described in in the accompanying Schedule of Findings and Responses as Finding 2015-001, our examination disclosed that the City reported incorrect compensation amounts and hours worked for five of the nine employees reviewed.

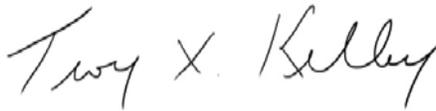
In our opinion, because of the effect of the matter discussed above, pensionable wages and contributions reported to DRS are not fairly stated, in all material respects, for the year ended June 30, 2015, based on the applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the City's pensionable wages and contributions reported to DRS or management's assertion thereon; and any other instances that warrant the attention of those charged with governance, and noncompliance with provisions of contracts or grant agreements, and abuse that have a material effect on the City's pensionable wages and contributions reported to DRS or management's assertion thereon. We are also required to obtain and report the views of management concerning the findings, conclusions,

and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on management's assertion and not for the purpose of expressing an opinion on the internal control over compliance and other matters; accordingly, we express no such opinions.

Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the accompanying Schedule of Findings and Responses as Finding 2015-001.

The City's response to the findings identified in our examination is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in black ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

SCHEDULE OF FINDINGS AND RESPONSES

City of Sunnyside Yakima County July 1, 2014 through June 30, 2015

2015-001 The City lacks internal controls to ensure accurate reporting of compensation and hours worked to the Department of Retirement Systems.

Background

The City of Sunnyside provides pension benefits to its employees through participation in the Public Employees' Retirement System (PERS) plans and Law Enforcement Officers' and Fire Fighters' (LEOFF) plans administered by the Department of Retirements Systems (DRS). It is the responsibility of the City to design and follow internal controls that provide reasonable assurance that member data reported to the Department is accurate and complete.

Specifically, the City is responsible to ensure compensation and hours worked are correctly calculated and reported for its employees. This census data provided to Department of Retirement Systems (DRS) by state and local governments supports the calculation of the total pension liability for each plan and the allocation of the pension related liabilities on the City's financial statements.

Description of Condition

The City's process for calculating and reporting compensation and hours worked to DRS contain the following control deficiencies:

- One employee is responsible for all payroll and human resource functions, which includes calculating, reporting and remitting payments to DRS.
- No one performs a secondary review of the transmittals prior to submitting the information to DRS.

As a result of these control deficiencies, the City incorrectly reported compensation and hours for a PERS Plan 1 member and a Plan 2 member, as well as three LEOFF 2 members.

We consider these deficiencies in internal controls to be material weaknesses.

Cause of Condition

The City lacks policies and procedures that require segregation of duties and monitoring over payroll and benefit reporting. Past audit findings in this area have not been addressed and the City has not made it a priority to follow up on errors and discrepancies.

Effect of Condition

Without adequate oversight and monitoring, the City cannot ensure employee compensation and hours worked are reported accurately to DRS. Misreporting pension data to DRS could result in inaccurate calculation of pension related liabilities on the City's financial statements and potentially retirement benefits when employees retire.

The City did not correctly report information to DRS for five of nine employees tested. The City over reported compensation in total by \$2,961 and hours were under reported by a total of 526.

Recommendation

We recommend the City develop internal control processes to ensure accuracy of compensation and hours worked. These controls should, at a minimum, segregate duties between the payroll and human resources functions at the City and perform a secondary review of all information before it is reported to DRS.

City's Response

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 City of Sunnyside is currently in the process of implementing an internal control process to ensure accuracy of compensation and hours worked. 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. Additionally, the Director of Finance now oversees the reconciliation of all DRS payments.

Auditor's Remarks

We thank the City for its cooperation throughout the audit process. We appreciate the City's timely response to identified control deficiencies in order to ensure accurate reporting of compensation and hours worked in the future.

Applicable Laws and Regulations

RCW 41.40.010, Definitions, states in part:

(8)(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided above, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature;
or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

Government Auditing Standards, December 2011 Revision, paragraph 5.20 states:

5.20 When performing GAGAS examination engagements, auditors should report, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. Auditors should include this information either in the same or in separate report(s).

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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