



Washington State Auditor's Office

Government that works for citizens

Accountability Audit Report

City of Granger

Yakima County

For the period January 1, 2014 through December 31, 2015

Published October 24, 2016

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Washington State Auditor's Office

October 24, 2016

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,

A handwritten signature in cursive script that reads "Troy X. Kelley".

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's elected officials and management:

- Establish a formal, written comprehensive plan to address its financial condition and allocation of shared costs. The plan should continue to be revised as needed to resolve financial issues.
- Closely monitor financial operations to ensure it is able to meet its financial obligations.
- Develop and follow a cost allocation plan that documents the rationale for charging costs to each fund. In addition, the City should retain support of the calculations and actual charges to each fund, and review and update the cost allocation plan on an annual basis.

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 Granger from January 1, 2014 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:

- | | |
|----------------------------|---------------------|
| • Cost allocation | • Cash receipting |
| • Financial condition | • Disbursements |
| • Municipal court | • Credit cards |
| • Safeguarding of assets | • Interfund loans |
| • Open Public Meetings Act | • Budget compliance |

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The City of Granger financial condition has been declining and does not have adequate support for the allocation of shared costs.

Background

An elected City Council and Mayor govern the City and a Clerk/Treasurer is responsible for recording and reporting financial transactions. The City serves approximately 3,880 citizens and operates on a \$3.7 million budget. Over the past four years, the City's financial condition has been declining. This decline puts the City at risk of not being able to meet financial obligations and maintain current service levels.

Description of Condition

Financial Condition

The City's ending General Fund cash balances since 2012 were:

Fiscal Year	General Fund - Cash and Investments
2012	\$318,716
2013	\$206,805
2014	\$271,939
2015	\$ 84,910

As of September 6, 2016, the City's General Fund cash balance was \$42,510, which would cover approximately 11 days of operating expenses.

General Fund operating expenditures exceeded operating revenue in each of the prior three years:

	2013	2014	2015
Revenue	\$1,087,484	\$1,186,439	\$1,206,087
Expenditures	\$1,141,932	\$1,264,386	\$1,352,431
(Deficit)	\$(54,448)	\$(77,948)	\$(146,345)

Cost Allocation

Cities are allowed to charge costs incurred by 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, from benefitting or subsidizing other functions of government.

The City does not have written policies or procedures or an approved cost allocation plan outlining the method for allocating costs. Without this documentation, the City cannot demonstrate that the costs provided a measurable benefit to the charged funds or that the allocations were fair and reasonable. We communicated this issue to the City during the prior audit.

The following costs were charged to restricted funds:

	2014	2015
Garbage	\$49,016	\$52,408
Water/Sewer	\$104,153	\$113,387
Irrigation	\$30,312	\$25,402
Special revenue funds	\$17,419	\$17,413
Total	\$200,700	\$208,610

If the City cannot demonstrate these costs benefited the restricted funds charged, they should be recorded as additional General Fund operating expenditures which would increase that fund’s deficit spending.

Cause of Condition

Financial Condition

City’s management did not adequately monitor or provide oversight of the City’s financial activities. The City has not effectively controlled its costs and has not made sufficient efforts to reduce expenses and increase revenue.

Cost Allocation

Since our last audit, City management presented a cost allocation plan to Council. Although plan was not approved, the City continued allocating costs to restricted funds without documentation to support that the amounts were fair and equitable.

Effect of Condition

Financial Condition

The City is at risk of not being able to meet financial obligations or maintain services at its current levels.

Cost Allocation

Without support for the allocation of costs, the City cannot demonstrate that amounts were fair, equitable or representative of the services each fund received. Further, the City is unable to show that it complied with state laws that prohibit shifting restricted resources to other funds. Increased allocated costs to City utilities may result in higher utility rates and may inappropriately subsidize the General Fund.

Recommendation

We recommend the City's elected officials and management:

- Establish a formal, written comprehensive plan to address its financial condition and allocation of shared costs. The plan should continue to be revised as needed to resolve financial issues.
- Closely monitor financial operations to ensure it is able to meet its financial obligations.
- Develop and follow a cost allocation plan that documents the rationale for charging costs to each fund. In addition, the City should retain support of the calculations and actual charges to each fund, and review and update the cost allocation plan on an annual basis.

City's Response

The City will be reviewing and adopting a cost allocation plan during the 2017 budget process, the plan has adequate measures on how costs will be shared fairly and equitably among department and funds. Provisions have been made in the plan to review and update the cost allocation plan on an annual basis during the City's budget sessions.

The Mayor and Council are aware of the City's financial situation and have put measures in place to help correct the matter. Council is considering a freeze on hiring a couple of open positions in the police department and is also considering a freeze on all non-essential spending. Council is also in the process of adopting an Ordinance that would limit the spending of more than \$500 unless prior approval is given from Council. Council will be discussing this extensively during the 2017 budget process as well.

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.

RCW 43.09.240, Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections states in part:

Every public officer and employee, whose duty it is to collect or receive payments se of the public shall deposit such moneys collected or received by him or her with the treasurer of the local government once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible as long as the treasurer has received a written request from the department, district, or agency, and where the department, district, or agency certifies that the money is held with proper safekeeping and that the entity carries out proper theft protection to reduce risk of loss of funds. Exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

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.

2015 *Budgeting, Accounting and Reporting System* (BARS) manual issued by the State Auditor's Office pursuant to RCW 43.09.230, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

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. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Granger
Yakima County
January 1, 2014 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 Granger. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2012 through December 31, 2013	Report Ref. No.: 1013642	Finding Ref. No.: 2013-001
Finding Caption: The City of Granger does not have adequate support for the allocation of shared costs.		
Background: 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, employee at the City were unaware that they were required to reconcile budget allocation estimates to reflect actual expenditures at year end.		
Status of Corrective Action: <div style="display: flex; justify-content: space-between; align-items: flex-start;"><div style="text-align: center;"><input type="checkbox"/> Fully Corrected</div><div style="text-align: center;"><input type="checkbox"/> Partially Corrected</div><div style="text-align: center;"><input checked="" type="checkbox"/> Not Corrected</div><div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div></div>		
Corrective Action Taken: <i>The City did work towards adopting a formal cost allocation plan during the 2016 budget session. The policy/plan laid out how the methods in which certain cost would be shared and allocations based on job responsibilities. Council thought too much of a burden was placed on Current Expense with these new shared cost and didn't approve the plan. Even though the City hasn't formally adopted a plan, the majority of the bills are calculated and costs are shared when applicable, with job responsibilities based on estimates of where duties lie.</i>		

Audit Period: January 1, 2012 through December 31, 2013	Report Ref. No.: 1013642	Finding Ref. No.: 2013-002
Finding Caption: The City does not have adequate internal controls over its municipal court accounting activities, increasing the risk undetected errors or losses could occur.		
Background: 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. Further, it is unlikely the City would be able to assign responsibility for a loss if one were to occur.

Status of Corrective Action:

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

Corrective Action Taken:

The Court clerk provides all the pertinent report generated by the DISCIS system at the end of each month. The reports are in a binder with a sign off sheet which the court clerk signs off and then is reviewed by the City Clerk Treasurer or Deputy Clerk. This is reviewed at the end of each month and if any adjustments, changes, or refunds are made, the supporting documentation is attached to each report.

RELATED REPORTS

Financial

Our opinion on the City's financial statements and compliance with federal grant program requirements 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>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Granger operates with a mayor-council form of government consisting of five elected Council Members and an elected Mayor. The City serves approximately 3,880 citizens and operates on a \$3.7 million budget.

The City's services include a City Hall, Municipal Court, Police Department, Public Works Department, Building Inspection and Permitting 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:	Alice Koerner, City Clerk/Treasurer
Telephone:	(509) 854-1725
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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 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	
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