



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Sunnyside

Yakima County

For the period January 1, 2016 through December 31, 2016

Published May 21, 2018

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Office of the Washington State Auditor
Pat McCarthy

May 21, 2018

Council
City of Sunnyside
Sunnyside, 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 independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, except as described below, City operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the City could make improvements.

We recommended that the City develop payroll policies and internal control processes to ensure:

- Adequate monitoring, review and approval of all payroll benefits.
- All payroll-related payments are accurately and promptly reconciled to the general ledger to ensure accurate reporting
- Any unresolved differences continue to be researched and resolved to ensure all public funds are accounted for and properly recorded

These recommendations were included with our report and in a separate communication as a finding.

As referenced above, we also noted certain matters that we communicated to City management and Council in a letter dated May 14, 2018, related to financial condition. 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 Sunnyside from January 1, 2016 through December 31, 2016.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the year ended December 31, 2016, the areas examined

were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Utility billings, voids and adjustments at City Hall
- City's Cost Allocation Plan and implementation of the plan in regards to sharing costs amongst funds
- Municipal Court –cash receipting and adjustments
- Self-insurance for unemployment compensation
- Payroll – vendor payments, adjustments, system reconciliations and overtime and holiday payouts for the Police Department
- Jail revenue for housing of inmates and management of inmate trust accounts
- Procurement for engineering services
- Financial condition and fiscal sustainability

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The City did not have adequate oversight of payroll operations to safeguard public resources.

Background

The City paid about \$10.7 million in payroll during 2016. During three prior audits dating back to 2011, we have recommended the City Council and management strengthen internal controls over payroll. The current audit identified continuing control weaknesses in this area.

Description of Condition

The City uses a system to run payroll and issue payroll checks that is separate from its general ledger and financial reporting system. The payroll system data is uploaded to its general ledger after payroll checks are processed. However, after the payroll is uploaded, subsequent payments to vendors for employee benefits – such as retirement, unemployment and deferred compensation – are made through an online system.

We noted the following payroll related control deficiencies that continue to hinder the City's ability to properly report payroll expenditures in the general ledger:

- In 2015, one City employee was responsible for human resources and payroll functions without oversight or monitoring. In 2016, the City hired a separate employee to process employee payroll, independent from human resources functions. However, human resources was still responsible for processing employee benefit payments, which included calculating, reporting and remitting these payments. No one reviewed this information to ensure it was submitted or recorded correctly.
- An independent review of payments to benefit vendors was not performed before the payments were issued to ensure the transactions were valid, supported and properly recorded in the general ledger.
- Although the City performed a reconciliation between the bank statement activity and the general ledger, differences identified during the reconciliation were not adequately followed up on. Differences related to payroll transactions were recorded in a temporary clearing account and sent to the Human Resources Assistant for follow-up; however, the City did not always identify the reason for the differences to accurately record the transactions to the proper account.

Cause of Condition

The City Council and the City Manager have not made it a priority to address prior audit recommendations or to segregate the payroll and human resources functions in a manner that provides adequate oversight, monitoring and accountability. Although these positions were separated during the audit period, Human Resources still processes benefit payments without adequate oversight. Further, management has not held staff accountable for following up on differences that are identified between the bank reconciliation and the general ledger to ensure all payroll transactions are recorded accurately in the general ledger system.

Effect of Condition

Without adequate oversight and monitoring of payroll payments and the reconciliation to the general ledger, the City cannot ensure all payments are valid. Also, the City cannot ensure that the general ledger reports accurate payroll expenditures.

From our review of bank reconciliations for 2016, the City identified the following payments processed through the bank that were not included in the general ledger:

- One retirement payment of \$11,619 from February 2016.
- Three payments for unemployment compensation totaling \$13,095 from March, May and November 2016.

In addition, there were multiple instances in 2016 when the deferred compensation payments in the general ledger did not agree to the amount paid, for minor amounts.

Once these differences were identified, the City recorded these transactions in the clearing fund and flagged them for further follow-up. However, at the time of our audit, the City had followed up on only one out of the four transactions several months after the transaction occurred. Further, the City did not take adequate steps to research why the differences occurred and establish appropriate procedures to avoid future differences.

The City was forced to do a prior period adjustment, totaling \$192,988, at the beginning of 2016 to clear unresolved payroll differences that had accumulated since 2012. Unresolved differences of about \$10,000 still remain in the clearing account as of the date of our audit.

Recommendations

We recommend the City develop payroll policies and internal control processes to ensure:

- Adequate monitoring, review and approval of all payroll benefit payments
- All payroll-related payments are accurately and promptly reconciled to the general ledger to ensure accurate reporting
- Any unresolved differences continue to be researched and resolved to ensure all public funds are accounted for and properly recorded

City's Response

The City of Sunnyside acknowledges this finding in part, however disputes the assertion that the City Council and City Manager do not make this a priority. The city has been working to rectify these conditions. The City did in fact hire a payroll clerk to segregate HR and payroll functions. The city has been working on transitioning to a single financial software system for several years. During the audit period the City was using one (BIAS) financial software for most financial transactions, and another (Eden) because it was not able to use Bias for HR and payroll. The city has now completed the transition and has eliminated the dual system problem. Management recently reorganized staff and has placed HR under the direct supervision of the Finance and Administrative Services Director. All payroll benefit payments are now run through Accounts payable and have a two tear approval process. The payroll related payments are now reconciled to the General Ledger in a timely manner. Management is currently working on resolving all outstanding HR and payroll related discrepancies.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Controls over Financial Reporting

BARS Manual 3.1 – Accounting Principles and Internal Controls

BARS Manual 3.8.11 – Electronic Funds Transfer – Disbursements



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Sunnyside
Yakima County
January 1, 2016 through December 31, 2016**

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2014 – December 31, 2015	Report Ref. No.: 1017471	Finding Ref. No.: 2015-001
Finding Caption: The City of Sunnyside does not have adequate support for its allocation of shared costs to restricted funds.		
Background: Cities are allowed to charge costs incurred by their central service functions to the funds that benefit from the services. They should charge costs 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 and to document the benefit received when applying these charges. Additionally, state law prohibits resources restricted for specific uses. We reviewed the allocation of shared costs at the City and noted: <ul style="list-style-type: none">• The City does not have written policies or procedures regarding cost allocations.• The City does not have a cost allocation plan and could not provide documentation to support the allocation of shared costs for central service functions to restricted funds.• The City did not compare allocated costs to actual expenditures to determine reasonableness of the allocations.• The City did not report the allocated costs correctly in the accounting system. We recommend the City 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.		

Status of Corrective Action: (check one)

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

Corrective Action Taken:

In October, 2016, City Staff created a formal written Cost Allocation Plan that details the methodology and examples of allocating costs to support the allocation of shared costs for central service functions. The Cost Allocations Plan was reviewed by the Local Government Performance Center on November 7, 2016 and received excellent reviews. At the November 14, 2016 City Council Meeting, a formal written Cost Allocation Plan was presented to City Council. This plan was included in the 2017 Budget processes and is planned to be reviewed yearly as part of the budget to determine if any changes or updates need to be made for the following fiscal year. During the year, updates are made as necessary.

Audit Period:

January 1, 2013 – December 31, 2014

Report Ref. No.:

1017462

Finding Ref. No.:

N/A

Finding Caption:

An investigation determined a cash receipting misappropriation had occurred at the City, totaling \$17,831 between January 1, 2013 and December 31, 2014.

Background:

From the investigation, the Office identified the following questionable items:

- \$1,637 of manual receipt transactions that did not get entered into the accounting system in a timely manner or in the same method as the initial receipt.
- \$10,531 of unusual B&O tax adjustments.
- \$3,647 of unusual and unsupported utility receipt adjustments.
- \$351 in transactions recorded through another employee's identification number that were both unusual and unsupported.
- Deposit of \$2,048 was never located.

We found the following weaknesses allowed the misappropriation to occur:

- The former Finance Clerk had complete access to key systems, including cash-receipting, utility billings, deposit reconciliations and account adjustments.
- The Utility Clerk and Finance Clerk were responsible for receipting utility payments and also making adjustments to receipts and utility bills. There was no independent review of receipt adjustments, and support for adjustments was not retained.
- The City did not monitor to compensate for the lack of segregation of duties to ensure it could detect or prevent misappropriation.
- The former Finance Clerk was solely responsible for receipting and reconciling B&O

tax payments, without independent oversight.

- Manual receipts were not reconciled to the accounting system to ensure receipts were recorded in the system completely and accurately, and included in the daily deposit.

We recommend the City strengthen internal controls over cash receipting to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies.

Status of Corrective Action: (check one)

☒ Fully
Corrected

☐ Partially
Corrected

☐ Not Corrected

☐ Finding is considered no
longer valid

Corrective Action Taken:

The City of Sunnyside has taken many steps to increase internal controls in order to assure the safeguard of public resources. The following summarizes the some of the ways the City has made changes to practices or policies in order to tighten internal controls:

- 1. A city wide review of user rights within the software system is periodically performed to assure that the appropriate rights are given to supervisory staff and cashiers are not given the right to void or change transactions.*
- 2. Any requests for a voided transaction to be made must be requested in writing to the Director of Finance or their designee. Those requests are completed by the Director of Finance or designee and retained by the Finance Department. A report is generated monthly for all voided transactions which are then compared to the written requests.*
- 3. A universal password for cashier computers was eliminated. All users were required to logon using their own unique logon and password. Computers city-wide were set to log off after 15 minutes of inactivity.*
- 4. Cash drawers were given locking lids with unique keys for overnight storage in the vault. Locking bank bags were implemented for cashier deposits. The use of locking cash drawers when away from visual site was implemented. Two person cash count down was implemented for all cashiering at City Hall.*
- 5. Financial software was integrated for Building Permitting, Dog Licensing and Business Licenses to be within the same financial software system allowing for tracking and reporting.*
- 6. Mail is opened by the City Clerk and delivered to the Finance Clerks on a rotation basis. No one person handles receipting mail payments or B & O payments.*
- 7. The City began reconciling bank statements within the financial software in order to monitor and reconcile deposits/expenditures.*
- 8. The City's Financial Software Company took measures to lock down the cash receipting system in order to assure cashiers could not make changes retroactively to receipts once the deposit had been reconciled.*

Audit Period: July 1, 2014 – June 30, 2015	Report Ref. No.: 1017346	Finding Ref. No.: 2015-001
Finding Caption: The City lacks internal controls to ensure accurate reporting of compensation and hours worked to the Department of Retirement Systems.		
Background: <p>The City 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 Retirement Systems (DRS). It is the responsibility of the City to design and follow internal controls that provide reasonable assurance the member data reported to DRS is accurate and complete.</p> <p>The City's process for calculating and reporting compensation and hours worked to DRS contain the following control deficiencies:</p> <ul style="list-style-type: none"> • One employee is responsible for all payroll and human resource functions; this includes calculating, reporting and remitting payments to DRS. • No one performs a secondary review of the transmittals prior to submitting the information to DRS. <p>As a result, 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.</p>		
Status of Corrective Action: (check one) <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 checked="" type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input 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 of Sunnyside is aware of this problem and has taken steps to ensure accurate and timely submission. Action taken includes hiring a payroll clerk in 2016, having the HR staff report directly to the Finance and Administrative Services Director, having all submissions reviewed by the Director, and completing the transition of all payroll and HR financial transactions to a new software system to alleviate confusion between two systems.</i>		

RELATED REPORTS

Financial

Our opinion on the City's financial statements 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>.

INFORMATION ABOUT THE CITY

The City of Sunnyside serves approximately 16,280 citizens in Yakima County. The City provides a full range of municipal services including police, fire, Municipal Court, public improvements, sanitation, water utility, community development and parks and recreation.

An elected, seven-member Council governs the City. The Council elects one of its members to serve as Mayor for a two-year period. The Council also appoints management to oversee the City's daily operations as well as its approximately 105 full-time employees. For 2016 the City operated on a \$26.2 million budget.

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 Sunnyside 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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