



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Long Beach

Pacific County

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

Published July 16, 2018

Report No. 1021677





Office of the Washington State Auditor
Pat McCarthy

July 16, 2018

Mayor and City Council
City of Long Beach
Long Beach, 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,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Related Reports.....	8
Information about the City.....	9
About the State Auditor's Office.....	10

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 the City 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. 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 amounts charged and support for the charges
- Periodically review and update the policy and the cost allocation plan for charging shared services costs

These recommendations were included with our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the City of Long Beach 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:

- Safeguarding of theft sensitive assets
- General indirect cost allocation plan – allocation of shared costs to restricted funds
- Police department – cash receipting, citations and evidence room
- Open public meeting minutes
- Financial condition and fiscal sustainability
- Evaluated design of controls over fuel purchases

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The City did not have adequate controls over the allocation of shared costs to restricted funds.

Background

Cities may charge costs incurred for their central service functions, such as general administration, human resources, payroll and purchasing, to the funds that benefit from the services. Cities 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, such as utilities that collect usage-based fees from citizens, from benefitting or subsidizing other government functions.

Description of Condition

The City has adopted a policy that governs how it calculates and charges shared services to all funds and departments. However, the City did not follow its policy and could not provide adequate documentation to support salary and benefit allocations to the restricted Water and Stormwater Utility funds. We communicated this issue to City management during the past four audits.

Cause of Condition

The City has not devoted sufficient time and resources to develop adequate controls and oversight over cost allocations. In addition, the City has not made it a priority to ensure that prior audit recommendations are resolved promptly.

Effect of Condition

The City made unsupported salary and benefit allocations to its restricted Water and Stormwater Utility funds totaling \$1,288,064. If costs allocated to restricted utility funds are not reasonable, City utility customers might be paying higher rates unnecessarily.

Recommendations

We again recommend the City 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. 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 amounts charged and support for the charges
- Periodically review and update the policy and the cost allocation plan for charging shared services costs

City's Response

The City agrees with the recommendations from the State Auditor's Office. We will be updating our policy and following it.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank City staff for their 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.

RCW 43.09.210 Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property

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 Long Beach was established as a seashore resort by Henry Harrison Tinker in 1880 and incorporated in 1922. The City currently serves 1,440 citizens in Pacific County, along with thousands of visitors each year. The City provides an array of services including police, fire, parks, recreational and cultural services, land use management and development regulation, street maintenance and construction, water and wastewater services, and storm drainage management. The City participates in a range of inter-governmental organizations in order to effectively carry out its responsibilities.

An elected, five-member Council and an independently elected Mayor govern the City. The Mayor appoints a City Administrator to oversee the City's daily operations as well as its 35 employees. In 2017, the City operated on total revenues of 6.2 million.

Contact information related to this report	
Address:	City of Long Beach P.O. Box 310 Long Beach, WA 98631
Contact:	David Glasson, City Administrator
Telephone:	(360) 642-4421
Website:	www.longbeachwa.gov

Information current as of report publish date.

Audit history

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