



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
City of Everett

For the period January 1, 2017 through December 31, 2017

Published September 17, 2018

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**Office of the Washington State Auditor
Pat McCarthy**

September 17, 2018

Mayor and City Council
City of Everett
Everett, 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

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AUDIT RESULTS

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

About the audit

This report contains the results of our independent accountability audit of the City of Everett from January 1, 2017 through December 31, 2017.

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, 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Procurement – sole source, change orders, day labor and piggybacking
- Public Works Department – safeguarding of assets
- Medical transport billings in the Fire Department
- Cash-receipting in the Permit Center, Forest Park Swim Center and the Parks and Recreation Office
- Golf Course user fees – monitoring of third party management company
- Purchase cards – oversight, monitoring and review of charges made
- Loans – review legal authority for two loans made to another government and a nonprofit corporation.
- Utility fees – review of low-income utility fee reduction program

- Selected IT security policies, procedures, practices, and controls protecting financial systems, IT systems, and data
- Open Public Meetings Act compliance
- Financial condition and fiscal sustainability



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Everett January 1, 2017 through December 31, 2017

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

Audit Period: January 1, 2016 through December 31, 2016	Report Ref. No.: 1019887	Finding Ref. No.: 2016-001
Finding Caption: The City of Everett's internal controls over procurement were inadequate to ensure compliance with bid law requirements.		
Background: The City of Everett awarded a contract for a sewer system replacement project totaling \$9,972,930 in January 2015. The project was split into two phases. Phase 1 included a change order during 2016 totaling \$1,002,259 to add four blocks of sewer replacement and new storm drains to the project. These additions included moving a portion of the project from Phase 2 to Phase 1, which changed the scope of the Phase 1 project. Also, while Phase 1 was in construction, the City discovered poor sewer pipe conditions in a nearby alley and added this work to Change Order 1 to reduce the impact on citizens in the area. The City found the sewer mains were at a point of complete failure, and the construction manager recommended replacement of the two sewer mains to avoid service issues in the future. The City did not follow the emergency exemption requirements under state law (RCW 39.04.280). Also in 2016, the City purchased bioxide as a sole source purchase for \$458,000. In 2015, the City went out for bid for calcium nitrate solution and received bids from two vendors. The City selected the lowest bidder, and during 2015, the City found the vendor was not meeting the contract requirements. When the contract expired, the City reached out to the second bidder and entered into a contract using the sole source exception. Because the City received two bids in the prior year, the sole source exemption under state law (RCW 39.04.280(1)(a)), would not apply. The City was unable to demonstrate it received the lowest price or that all vendors were provided equal opportunity and access to bids.		

Status of Corrective Action: (check one)

☒ Fully Corrected

☐ Partially Corrected

☐ Not Corrected

☐ Finding is considered no longer valid

Corrective Action Taken:

The Purchasing Department revised its purchasing guidelines for the City staff to clarify justification for sole source contracts. The staff with contract management responsibilities have been reminded of the purchasing policy requirements.

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>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding the Everett Public Facilities District's (a component unit of the City of Everett) internal controls over financial statement preparation.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal programs, which are 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 Everett was incorporated in 1893, and currently serves approximately 105,800 citizens.

An elected, seven-member Council and an independently elected Mayor govern the City. The Mayor appoints management to oversee the City's daily operations as well as its approximately 1,200 employees. The City is a general-purpose government providing police, fire, emergency medical service, water distribution, sewage collection and treatment, transit services, street maintenance, planning and zoning, libraries, parks and recreation, and general administrative services. For fiscal year 2017, the City's primary government expenditures totaled approximately \$247 million.

Contact information related to this report

Address:	City of Everett 2930 Wetmore Suite 10B Everett, WA 98201
Contact:	Susy Haugen, Finance Director-Treasurer
Telephone:	(425) 257-8612
Website:	www.everettwa.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Everett 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