

Washington State Auditor's Office
Accountability Audit Report

Town of Skykomish
King County

Report Date
October 29, 2013

Report No. 1011076

Issue Date
December 31, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 31, 2013

Mayor and Town Council
Town of Skykomish
Skykomish, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your Town to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Town of Skykomish's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

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King County
October 29, 2013**

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Audit Summary

**Town of Skykomish
King County
October 29, 2013**

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Town of Skykomish from January 1, 2010 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the Town. We also determined whether the Town complied with state laws and regulations and its own policies and procedures.

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 noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Financial operations
- Procurement
- Financial condition

RESULTS

In most areas, the Town complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- The Town does not have adequate oversight of financial operations to safeguard public resources.
- The Town does not have adequate internal controls over procurement and cannot demonstrate it received the best possible price on the Town Center project and two equipment purchases.

We also noted certain matters that we communicated to Town management. We appreciate the Town's commitment to resolving those matters.

Description of the Town

Town of Skykomish King County October 29, 2013

ABOUT THE TOWN

The Town of Skykomish, established in 1909, serves a population of approximately 200 citizens. The Town encompasses approximately one square mile in King County and is administered by a mayor-council form of government. The Town is governed by a five-member, elected Council and a separately elected Mayor.

The Town's five employees provide administrative, water, wastewater, garbage and public works services. The Town's budgeted general fund operating expenditures were \$493,164, \$1,841,799 and \$214,000 for 2010, 2011 and 2012, respectfully.

ELECTED OFFICIALS

These officials served during the audit period:

Mayor

Fred Black (through July 2012)
Tony Grider (effective October 2012)
Darrel Joselyn (through April 2011)
Gene Egan (effective July 2011)
Kevin Weiderstrom
Henry Sladek
Lorna Goebel
Mike Janasz

Town Council:

APPOINTED OFFICIALS

Clerk-Treasurer

Deborah Allegri

TOWN CONTACT INFORMATION

Address: Town of Skykomish
P.O. Box 308
Skykomish, WA 98288

Phone: (360) 677-2388

Website: www.town.skykomish.wa.us

AUDIT HISTORY

We perform an accountability audit at the Town every three years. During the last 10 audits, we reported one finding, which has since been resolved.

We also perform a financial audit of the Town when required. Due to the large amount of grant money received, we performed a financial audit for the 2008-2009 audit period. The 2008-2009 audit reported one finding regarding inadequate internal controls over financial reporting. This issue has been partially resolved.

Schedule of Audit Findings and Responses

Town of Skykomish King County October 29, 2013

1. **The Town does not have adequate oversight of its financial operations to safeguard public resources.**

Description of Condition

The Mayor and Town Council have not developed policies and procedures to adequately monitor and manage the Town's financial operations in the following areas:

Donations

The Town began operating a live steam railroad in May 2013 called the Great Northern & Cascade Railway. In August 2013, the Town allowed a non-profit organization to operate the railroad and collect donations that are intended to be used to support the railroad. We found:

- The Town did not comply with its Municipal Code which requires the Clerk/Treasurer to collect the railroad donations.
- The Town does not have a contract with the non-profit defining its relationship.
- The Town has no procedures in place to monitor the activity of the non-profit to ensure that the donations received are used for the intended purpose.

Payroll

The Town paid wages and benefits of \$510,938, \$210,952, and \$221,633 in 2010, 2011 and 2012, respectively. We found the Town did not have adequate internal controls to ensure sick and vacation leave was properly accrued and used in accordance with the Town's Municipal Code. This resulted in Town employees using leave prior to earning their leave benefits.

Utility Billing and Cash Receipting

The Town billed and receipted funds of approximately \$1.1 million, \$240,000, and \$260,000 in 2010, 2011 and 2012, respectively. We found:

- Multiple cashiers operate out of the same cash drawer without reconciling the drawer between cashiers.
- An independent person does not reconcile receipts recorded in the Town's accounting system to the bank deposit.

- An independent person does not review voided transactions and manual adjustments to ensure they are properly approved and valid.
- The Town does not have a policy allowing deposits less often than every 24 hours as required by state law. The Town makes deposits once per week.

Budget Compliance

The Town's General Fund operated on approved budgets of \$493,164, \$1,841,799, and \$214,000 in 2010, 2011, and 2012, respectively. We found the Town Council did not receive adequate financial information to monitor the Town's budget. The Town exceeded its General Fund expenditure budget by \$135,535, \$17,093, and \$12,406 in 2010, 2011 and 2012, respectively.

Cause of Condition

Donations

The Town did not understand that it needed a contract with the non-profit. Further, the Town did not effectively communicate or implement its Municipal Code.

Payroll

Employees responsible for monitoring sick and vacation leave accruals did not fully understand the Town's Municipal Code.

Utility Billing and Cash Receipting

The Town believed the internal controls put in place adequately safeguarded public resources.

Budget Compliance

The Town did not understand the need for adequate financial information in order to effectively monitor its budget.

Effect of Condition

Donations

The Town lost the use of \$4,500 in donations due to the non-profit collecting and utilizing them instead of the Town.

Payroll

The Town paid four employees a total of \$6,802 for sick leave and \$2,945 for vacation time the employees had not earned.

Utility Billing and Cash Receipting

Without restricting access and ensuring an independent person monitors receipting and billing activity, accountability for receipting transactions and activity cannot be fixed to

one individual if a loss of funds should occur. Further, by not making deposits timely, public funds are not adequately safeguarded.

Budget Compliance

Without timely budget monitoring, the Town cannot maintain control over the allocation and use of resources. When expenditures exceed authorized appropriations, public funds are spent without legal authority and without the knowledge of interested citizens.

Recommendation

We recommend the Town evaluate its policies and procedures over key financial operations to ensure that internal controls are adequately designed to safeguard public funds. Specifically:

- Establish a contract with the non-profit to define the relationship and responsibilities between the Town and the non-profit.
- Comply with its municipal code in the collection of the donations.
- Ensure employees accrue and use leave in accordance with the Town's Municipal Code.
- Ensure access to cash drawers is restricted.
- Ensure an independent person reviews and monitors cash receipting and billing functions.
- Ensure expenditures are limited to the Council approved budget or approve a budget amendment.

Town's Response

Thank you for performing the Town of Skykomish audit. I appreciate the thoroughness and attention to detail of your study and recommendations for future improvements. Since the initial report, we have addressed many of these recommendations and are working towards full compliance with County and State law.

Auditor's Remarks

We appreciate the steps the Town is taking to resolve these issues. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting — Uniform system of accounting, states:

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.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

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

Every public officer and employee, whose duty it is to collect or receive payments due or for the use 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 35.33.121, Limitations on expenditures, states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's or town's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the city or town, the expenditure of city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year, without regard to the individual items contained therein

RCW 35.33.125, Liabilities incurred in excess of budget, states in part:

The clerk shall issue no warrant and the city or town legislative body or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon an order of a court of competent jurisdiction or for emergencies as provided in this chapter.

RCW 35.33.141, Report of expenditures and liabilities against budget appropriations, states:

At such intervals as may be required by city charter or city or town ordinance, however, being not less than quarterly, the clerk shall submit to the city's or town's legislative body and chief administrative officer a report showing the expenditures and liabilities against each separate budget appropriation incurred during the preceding reporting period and like information for the whole of the current fiscal year to the first day of the current reporting period together with the unexpended balance of each appropriation. The report shall also show the receipts from all sources.

Budgeting, Accounting and Reporting System Manual. Volume 1, Part 2, Chapter 1, Pages 2, states in part:

The budget authorizes and provides control of financial operations during the fiscal year. Upon adoption, the expenditure estimates in the fixed portion of the annual comprehensive budget, as modified by the legislative body, are enacted into law through the passage of an appropriations ordinance (city) or resolution (county). The appropriations constitute maximum expenditure authorizations during the fiscal year, and cannot legally be exceeded unless subsequently amended by the legislative body.

Town of Skykomish Municipal Code Section 3.45, states:

The Town clerk/treasurer is hereby authorized to accept donations for the purposes noted below to include any project that may be designated by the town council as falling within the following categories:

- (1) Town Center Depot building improvements
- (2) Town Center Park beautification and improvement projects to include parking areas, grass, picnic areas and maintenance of grounds
- (3) Town Center Railway Improvements (Great Northern & Cascade Railway) to include maintenance of track and equipment necessary for safe operation

Town of Skykomish Municipal Code Section 2.20.040 Vacation Leave (through December 2011), states:

- (1) Each regular full-time employee is entitled to vacation leave as follows:

Years of Continuous Service	Monthly Accrual Rate	Annual Hours	Accrual Days
40 Hours Per Week Employee:			
1 – 2 years	6-2/3 hours	80	10
2 – 5 years	8 hours	96	12
5 – 10 years	10 hours	120	15
10 – 15 years	12 hours	144	18
15 + years	13-1/3 hours	160	20
Maximum accumulative	At Any Time	168	21
Maximum carry over	Year to Year	0	0
35 Hours Per Week Employee:			
1 – 2 years	6 hours	72	10
2 – 5 years	7 hours	84	12
5 – 10 years	8-3/4 hours	105	15
10 – 15 years	10-1/2 hours	126	18
15 + years	11-3/4 hours	141	20
Maximum accumulative	At Any Time	147	21
Maximum carry over	Year to Year	0	0
30 Hours Per Week Employee:			
1 – 2 years	5-2/3 hours	64	10
2 – 5 years	6 hours	72	12
5 – 10 years	7-1/2 hours	90	15
10 – 15 years	9 hours	108	18
15 + years	10-1/3 hours	122	20
Maximum accumulative	At Any Time	126	21
Maximum carry over	Year to Year	0	0

(2) All new employees must satisfactorily complete their first year of employment to be entitled to the accrual and use of vacation leave. Regular part-time and temporary employees are not eligible for any vacation benefits. Employees do not accrue vacation benefits during a leave without pay.

Town of Skykomish Municipal Code Section 2.20.050 Sick Leave (through December 2011), states:

(1) All full-time regular employees accrue sick leave benefits at the rate of six hours for each calendar month of continuous employment.

(2) Employees accrue and may use sick leave during their trial periods. Regular part-time and temporary employees do not earn sick leave benefits. Employees do not accrue sick leave benefits during a leave without pay. Maximum accrual of sick leave shall be 96 hours.

(5) Employees who use all their accumulated sick leave and require more time off work due to illness or injury may, with the mayor's prior approval, take leave without pay or use vacation time.

Town of Skykomish Ordinance No. 432, Section 2.b Vacation Leave (effective December 2011), states:

Each regular full-time employee is entitled to vacation leave as follows:

(40 hours per week employee :)

<u>Years of Continuous Service</u>	<u>Monthly Accrual Rate</u>	<u>Annual Hrs</u>
1-2 years	6 2/3 hrs	80
2-5 years	8 hrs	96
5-10 years	10 hrs	120
10-15 years	12 hrs	144
15 plus years	13 1/3 hrs	160
<u>Maximum Carry Over of Vacation Hours</u>		<u>1 year</u>

All new employees must satisfactorily complete their first year of employment to be entitled to the accrual and use of vacation leave. Regular part-time and temporary employees are not eligible for any vacation benefits. Employees do not accrue vacation benefits during a leave without pay.

Each employee is responsible for scheduling their vacations without undue disruption of department operations. Leave requests shall be that submitted at least two weeks prior to taking vacation leave.

Town of Skykomish Ordinance No. 432, Section 2.c Sick Leave (effective December 2011), states:

All full-time regular employees accrue sick leave benefits at the rate of six (6) hours for each calendar month of continuous employment.

Employees accrue and may use sick leave during their trial periods. Regular part-time and temporary employees do not earn sick leave benefits. Employees do not accrue sick leave benefits during a leave without pay. Maximum accrual of sick leave shall be seventy two (72) hours per year. Sick leave hours may not be carried forward to the next calendar year.

Schedule of Audit Findings and Responses

Town of Skykomish King County October 29, 2013

2. **The Town does not have adequate internal controls over procurement and cannot demonstrate it received the best possible price on the Town Center project and two equipment purchases.**

Description of Condition

State laws provide an open and competitive public forum for bidders. The purpose is to enable governments to obtain the best work at the most reasonable prices and to prevent fraud, collusion, or favoritism in awarding public contracts. For public works projects, governments must estimate project costs including materials, supplies, equipment, labor and applicable sales and use taxes prior to starting the project to ensure it is procured correctly.

We reviewed the Town's compliance and found it does not have adequate policies and procedures for procurement. Specifically, the Town's municipal code only references the use of a small works roster for public works projects and cited the incorrect threshold requiring competitive bidding. No policies or procedures were found regarding formal bidding for public works projects or the procurement of supplies, materials and equipment purchases.

In addition, we noted:

Town Center Project

In 2011, the Town began working on a public works project to create a Town Center including the restoration of a historic depot building and the addition of a ride-on railroad. The Town spent \$306,064 on project expenditures through September 2013.

- State law requires the Town to approve plans, specifications and a cost estimate of the project before any further action is taken. The Town did not establish a complete project estimate prior to proceeding with the work.
- State law requires the Town to use a competitive process when performing public works projects in excess of \$65,000 or \$300,000, if utilizing a small works roster. The Town did not solicit competitive bids for its Town Center project.

Equipment Purchases

The Town purchased a generator for \$13,521 and a backhoe for \$38,618 in January and April 2011, respectively. State law requires the Town to use a competitive process when purchasing supplies, materials and equipment in excess of \$7,500. The Town may also waive competitive bidding requirements for reasons specifically defined in state law. The

Town did not solicit competitive bids for the purchases and could not provide evidence that it waived the competitive bidding requirements in compliance with state law.

Cause of Condition

Town Center Project

Employees responsible for ensuring compliance with state laws over public works projects did not fully understand state laws. Town officials felt the project could be broken into components so the competitive bidding requirements would not apply.

Equipment Purchases

The Town purchased used equipment as it believed it was the best price and was only available from one vendor. However, employees responsible for the purchases did not follow the requirements for waiving competitive bidding.

Effect of Condition

Town Center Project

By not establishing a complete project estimate, the Town cannot ensure it complied with state laws for public works projects or that it received the best price for the work performed.

Equipment Purchases

Although the purchase of used equipment qualifies as a special market condition exception from the competitive bidding process, the Town did not comply with the state laws that allow for an exemption to the competitive process or document its efforts to obtain the equipment at the best price.

Recommendation

We recommend the Town:

- Revise its Municipal Code and establish policies and/or procedures to ensure it complies with competitive bid laws for public works projects and purchases.
- Provide its employees with training to ensure they understand applicable laws and regulations regarding procurement and bidding.
- Complete project estimates prior to beginning any public works projects to ensure it appropriately procures the project in compliance with state law.
- Maintain documentation to demonstrate its compliance with procurement laws.
- Competitively procure public works projects and equipment purchases when required.

Town's Response

Thank you for performing the Town of Skykomish audit. I appreciate the thoroughness and attention to detail of your study and recommendations for future improvements. Since the initial report, we have addressed many of these recommendations and are working towards full compliance with County and State law.

Auditor's Remarks

We appreciate the steps the Town is taking to resolve these issues. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 35.23.352, Public works — Contracts — Bids — Small works roster — Purchasing requirements, recycled or reused materials or products, states:

(1) Any second-class city or any town may construct any public works, as defined in RCW 39.04.010, by contract or day labor without calling for bids therefor whenever the estimated cost of the work or improvement, including cost of materials, supplies and equipment will not exceed the sum of sixty-five thousand dollars if more than one craft or trade is involved with the public works, or forty thousand dollars if a single craft or trade is involved with the public works or the public works project is street signalization or street lighting. A public works project means a complete project. The restrictions in this subsection do not permit the division of the project into units of work or classes of work to avoid the restriction on work that may be performed by day labor on a single project.

Whenever the cost of the public work or improvement, including materials, supplies and equipment, will exceed these figures, the same shall be done by contract. All such contracts shall be let at public bidding upon publication of notice calling for sealed bids upon the work. The notice shall be published in the official newspaper, or a newspaper of general circulation most likely to bring responsive bids, at least thirteen days prior to the last date upon which bids will be received. The notice shall generally state the nature of the work to be done that plans and specifications therefor shall then be on file in the city or town hall for public inspections, and require that bids be sealed and filed with the council or commission within the time specified therein. Each bid shall be accompanied by a bid proposal deposit in the form of a cashier's check, postal money order, or surety bond to the council or commission for a sum of not less than five percent of the amount of the bid, and no bid shall be considered unless accompanied by such bid proposal deposit. The council or commission of the city or town shall let the contract to the lowest responsible bidder or shall have power by resolution to reject any or all bids and to make further calls for bids in the same manner as the original call.

When the contract is let then all bid proposal deposits shall be returned to the bidders except that of the successful bidder which shall be retained until a contract is entered into and a bond to perform the work furnished,

with surety satisfactory to the council or commission, in accordance with RCW 39.08.030. If the bidder fails to enter into the contract in accordance with his or her bid and furnish a bond within ten days from the date at which he or she is notified that he or she is the successful bidder, the check or postal money order and the amount thereof shall be forfeited to the council or commission or the council or commission shall recover the amount of the surety bond. A low bidder who claims error and fails to enter into a contract is prohibited from bidding on the same project if a second or subsequent call for bids is made for the project.

If no bid is received on the first call the council or commission may readvertise and make a second call, or may enter into a contract without any further call or may purchase the supplies, material or equipment and perform the work or improvement by day labor.

(3) In lieu of the procedures of subsection (1) of this section, a second-class city or a town may let contracts using the small works roster process provided in RCW 39.04.155.

Whenever possible, the city or town shall invite at least one proposal from a minority or woman contractor who shall otherwise qualify under this section.

(5) The cost of a separate public works project shall be the costs of the materials, equipment, supplies, and labor on that construction project.

(6) Any purchase of supplies, material, or equipment, except for public work or improvement, where the cost thereof exceeds seven thousand five hundred dollars shall be made upon call for bids.

(7) Bids shall be called annually and at a time and in the manner prescribed by ordinance for the publication in a newspaper of general circulation in the city or town of all notices or newspaper publications required by law. The contract shall be awarded to the lowest responsible bidder.

(8) For advertisement and formal sealed bidding to be dispensed with as to purchases with an estimated value of fifteen thousand dollars or less, the council or commission must authorize by resolution, use of the uniform procedure provided in RCW 39.04.190.

(9) The city or town legislative authority may waive the competitive bidding requirements of this section pursuant to RCW 39.04.280 if an exemption contained within that section applies to the purchase or public work.

RCW 39.04.020, Plans and specifications — Estimates — Publication — Emergencies, states:

Whenever the state or any municipality shall determine that any public work is necessary to be done, it shall cause plans, specifications, or both thereof and an estimate of the cost of such work to be made and filed in

the office of the director, supervisor, commissioner, trustee, board, or agency having by law the authority to require such work to be done. The plans, specifications, and estimates of cost shall be approved by the director, supervisor, commissioner, trustee, board, or agency and the original draft or a certified copy filed in such office before further action is taken.

If the state or such municipality shall determine that it is necessary or advisable that such work shall be executed by any means or method other than by contract or by a small works roster process, and it shall appear by such estimate that the probable cost of executing such work will exceed the sum of twenty-five thousand dollars, then the state or such municipality shall at least fifteen days before beginning work cause such estimate, together with a description of the work, to be published at least once in a legal newspaper of general circulation published in or as near as possible to that part of the county in which such work is to be done. When any emergency shall require the immediate execution of such public work, upon a finding of the existence of such emergency by the authority having power to direct such public work to be done and duly entered of record, publication of description and estimate may be made within seven days after the commencement of the work.

RCW 39.04.280, Competitive bidding requirements — Exemptions, states:

This section provides uniform exemptions to competitive bidding requirements utilized by municipalities when awarding contracts for public works and contracts for purchases. The statutes governing a specific type of municipality may also include other exemptions from competitive bidding requirements. The purpose of this section is to supplement and not to limit the current powers of any municipality to provide exemptions from competitive bidding requirements.

(1) Competitive bidding requirements may be waived by the governing body of the municipality for:

- (a) Purchases that are clearly and legitimately limited to a single source of supply;
- (b) Purchases involving special facilities or market conditions;
- (c) Purchases in the event of an emergency;
- (d) Purchases of insurance or bonds; and
- (e) Public works in the event of an emergency.

(2)(a) The waiver of competitive bidding requirements under subsection (1) of this section may be by resolution or by the terms of written policies adopted by the municipality, at the option of the governing body of the municipality. If the governing body elects to waive competitive bidding requirements by the terms of written

policies adopted by the municipality, immediately after the award of any contract, the contract and the factual basis for the exception must be recorded and open to public inspection.

If a resolution is adopted by a governing body to waive competitive bidding requirements under (b) of this subsection, the resolution must recite the factual basis for the exception. This subsection (2)(a) does not apply in the event of an emergency.

(b) If an emergency exists, the person or persons designated by the governing body of the municipality to act in the event of an emergency may declare an emergency situation exists, waive competitive bidding requirements, and award all necessary contracts on behalf of the municipality to address the emergency situation. If a contract is awarded without competitive bidding due to an emergency, a written finding of the existence of an emergency must be made by the governing body or its designee and duly entered of record no later than two weeks following the award of the contract.

(3) For purposes of this section "emergency" means unforeseen circumstances beyond the control of the municipality that either: (a) Present a real, immediate threat to the proper performance of essential functions; or (b) will likely result in material loss or damage to property, bodily injury, or loss of life if immediate action is not taken.

RCW 39.04.155, Small works roster contract procedures — Limited public works process — Definition, states in part:

(4) The breaking of any project into units or accomplishing any projects by phases is prohibited if it is done for the purpose of avoiding the maximum dollar amount of a contract that may be let using the small works roster process or limited public works process.

Town of Skykomish Municipal Code - Section 2.40.020 Small works rosters.

The town of Skykomish pursuant to RCW 39.04.155 establishes the following small works roster procedures for use:

(1) Cost. The town of Skykomish need not comply with formal sealed bidding procedures for the construction, building, renovation, remodeling, alteration, repair, or improvement of real property where the estimated cost does not exceed \$200,000, which includes the costs of labor, material, equipment and sales and/or use taxes as applicable. Instead, the town of Skykomish may use the small works roster procedures for public works projects as set forth herein by the Skykomish town council. The breaking of any project into units or accomplishing any projects by phases is prohibited if it is done for avoiding the maximum dollar amount of a contract that may be let using the small works roster process.

Status of Prior Audit Findings

Town of Skykomish King County October 22, 2013

The status of findings contained in the prior years' audit reports of the Town of Skykomish is provided below:

1. The Town has inadequate internal controls and monitoring over financial statement preparation and reporting

Report No. 1005611, dated May 16, 2011

Background

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The Clerk-Treasurer lacked accounting knowledge and experience with the financial reporting requirements detailed in the *Budgeting, Accounting and Reporting System* (BARS) Manual to prepare accurate and complete financial statements. As a result, the Clerk-Treasurer did not know about financial statement preparation, reporting deadlines and federal rules on grant reporting.
- The Town Council did not dedicate sufficient resources to ensure employees were fully trained in how to use new accounting software implemented in 2008. As a result, not all financial information was entered into the accounting system.
- The Council did not have an oversight process in place to ensure the financial statements were appropriately prepared for audit.
- All accounting duties are performed by one employee without oversight. One employee was responsible to process bank statements, disbursements and deposits received without regular review or reconciliation by someone independent of these duties.

Status

Although the Town has made improvements in its internal controls over financial reporting and operations, deficiencies in internal controls over operations still exist as reported in the Schedule of Audit Findings and Responses as Finding 1.



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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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