



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Aberdeen

For the period January 1, 2020 through December 31, 2020

Published April 25, 2022

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

April 25, 2022

Mayor and City Council
City of Aberdeen
Aberdeen, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is 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 value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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AUDIT RESULTS

Results in brief

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

However, we noted certain matters related to equipment rental and replacement that we communicated to City management and the Mayor and City Council in a letter dated April 18, 2022. We appreciate the City's commitment to resolving those matters.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the City of Aberdeen from January 1, 2020 through December 31, 2020.

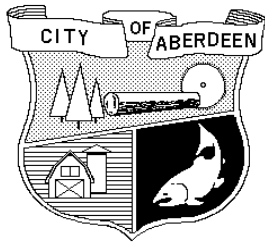
Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Equipment rental and replacement – establishment of rates and billing accuracy
- Accounts payable – credit cards and electronic funds transfers
- Procurement – public works, purchases, purchasing exemptions and change orders
- Payroll – gross wages, special pay types, termination of benefits and compliance with City policies
- Cash Receipting – timeliness and completeness of deposits

- Use of restricted funds – industrial water system fund
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



CITY OF ABERDEEN

Finance Department

200 East Market St • Aberdeen, WA 98520

Tel. (360) 533-4100 • Fax (360) 537-5741

WWW.ABERDEENWA.GOV

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Aberdeen

January 1, 2020 through December 31, 2020

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

Audit Period: January 1, 2019 through December 31, 2019	Report Ref. No.: 1028407	Finding Ref. No.: 2019-001				
Finding Caption: The City has not effectively managed its Equipment Rental and Replacement Fund, which could result in the inappropriate use of restricted funds.						
Background: The audit found that for four consecutive years, the City's Equipment Rental and Replacement (ER&R) fund did not charge a rate which was adequate to recover the costs of the fund. The audit also found that the City did not have adequate documentation to determine how rates were calculated or whether the rates were equitable. As a result, the ER&R funds expenses exceeded the funds revenues by \$85,690 in 2019 and the Parks department had a negative account balance of \$57,047.						
Status of Corrective Action: (check one) <table border="0"><tr><td><input type="checkbox"/> Fully Corrected</td><td><input checked="" type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The Equipment Rental Operations (ERO) Fund 501 and Equipment Rental Reserve (ERR) Fund 502 are combined for reporting purposes but treated differently for processing.</i> <i>The ERO Fund uses chargeback to ensure the costs plus overhead are charged to department using the repair shop (ERO) to cover the costs and ensure the fund stays in the positive. There is a SOP for the 501 fund that was started in 2020, used in 2021, and documented for use in 2021 and forward. 502 ERR is not rate based, it is based upon needed equipment that is determined during budget by department and the transfer into 502 is based upon budgeted need for replacing equipment by year.</i> <i>Issue #1: Rates did not recover the cost of maintenance and replacement. In 2020 the 501 Fund charged and received more revenue than expenditures demonstrated an effort was made to ensure we charged out enough to cover the costs of the service provided.</i> <i>Issue #2: The City Council allocated funds in the Reserve account during the budget process, but the resulting rates were not supported by documentation showing how the rates were</i>						

determined in order to achieve cost recovery and equitable charges. In 2020 -2022 the amounts transferred to Fund 502 were not based on rates but on determination of need by the Department Heads and transferred into 502 from their funds (as a #397 Transfer Out as was required by SAO). There is not enough funding to do a rate amount and also ensure there is enough there to cover the immediate need. We are working on how to do a process that allows for immediate needs in equipment and an amount for future needs. The note above that Parks did not have enough in the ERO was due to the allocation of Parks fund transferred, lack of reconciliation of the fund in prior years. That was alleviated in 2021 during budget where we were able to make sure enough was transferred to cover the negative balance.

Issue #3: The City does not have policies to ensure the rates recover costs nor to ensure charges to departments are equitable. There is a draft policy for the 501 ERO rate process and in 2020 and 2021 there was enough collected using the rates enough was charged to cover the expenses. The ERR (502) transfers are based on Department need to replace equipment and we working on a process that won't break the bank while getting all the equipment to have a balance in the ERR for repurchase, as it will be more than the City has available at the present time to fully fund the 502 replacement fund. The approach has been to reduce the ERR transfers when budgets are tight and only transfer immediately needed equipment funds for purchase in that year.

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 Schedule of Liabilities.

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 Aberdeen serves 17,024 citizens in Grays Harbor County. The City provides services including public safety, fire protection, Municipal Court, utilities, streets, parks and recreation, planning and zoning, and general administrative services. The City is also one of three entities participating in the Grays Harbor County Drug Task Force.

A mayor-council form of government governs the City with an elected, 12-member Council and an independently elected Mayor. The Council appoints management to oversee the City's daily operations as well as its 210 employees. For fiscal year 2020, the City operated on an annual general fund budget of \$21.6 million.

Contact information related to this report

Address:	City of Aberdeen 200 E. Market Street Aberdeen, WA 98520
Contact:	Patricia Soule, Finance Director
Telephone:	(360) 537-3201
Website:	www.aberdeenwa.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Aberdeen at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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