



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Oroville

For the period January 1, 2020 through December 31, 2022

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

May 9, 2024

Mayor and City Council
City of Oroville
Oroville, 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

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AUDIT RESULTS

Results in brief

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

As referenced above, we identified areas where the City could make improvements. These recommendations are included with our report as a finding.

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 Oroville from January 1, 2020 through December 31, 2022.

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 years ended December 31, 2022, 2021 and 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:

- Cost allocation – equitable distribution of indirect costs
- Procurement – public works projects and purchases
- Accounts payable – general disbursements, credit cards, and travel expenditures
- Payroll – gross wages
- Open public meetings – compliance with minutes, meetings, and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Oroville January 1, 2020 through December 31, 2022

2022-001 The City did not have adequate controls over the allocation of shared costs to restricted funds.

Background

Cities may charge costs incurred for central service functions such as general administration, human resources, payroll and purchasing to funds that benefit from the services. The charged costs must be in proportion to the benefit received.

The City has a responsibility to adopt a fair and equitable method of distributing shared costs among funds and to document the benefit received for 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 functions of governments.

Description of Condition

During the audit period, the City allocated about \$400,000 of salaries, benefits and insurance costs to its special revenue and proprietary funds, whose resources are restricted for specific uses. The City does not have written policies or procedures adopting a fair and equitable method of allocating costs.

We have reported concerns over the City's cost allocation plan since 2008, including a finding and management letter in the prior two audits.

Cause of Condition

The City has not devoted the necessary time and resources to develop formal written policies or procedures over the allocation of shared costs. In addition, the City has not prioritized the resolution of prior audit recommendations.

Effect of Condition

Without support for the allocation of costs, the City cannot demonstrate amounts were fair, equitable or representative of the services each fund received. Further, the City cannot demonstrate it complied with state laws that prohibit shifting restricted resources to other funds. Therefore, utility customers may be inappropriately supporting general government funds through their utility payments.

Recommendation

We recommend the City support shared costs charged to restricted funds by creating a written plan that documents how the City calculates and charges these costs to all funds and departments. The plan should require the City to document the amounts charged, provide support for the charges and update those allocations on an annual basis.

City's Response

The City recognizes that a policy for Cost Allocation is severely past due, however, City Department Heads are very conscientious when distributing costs to the appropriate funds.

A draft Cost Allocation policy was prepared in 2020, however, the COVID-19 Pandemic stopped the draft policy from moving forward.

The City Clerk would like to reevaluate the draft policy to ensure that the requirement is met appropriately.

Auditor's Remarks

We appreciate that the City recognizes that a cost allocation policy is past due, and we understand the challenges local governments faced due to the COVID-19 pandemic. Nonetheless, we want to emphasize the importance of the City's responsibility to adopt a fair and equitable method of distributing shared costs among funds and to document rationale for that distribution and the benefit received for these charges.

City elected officials have an important responsibility to not only steward the public's resources but also ensure transparency in operations. We will follow up on the status of the finding 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

RCW 35A.33.122 Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized

Budgeting, Accounting and Reporting System (BARS Manual) 3.9.5 Overhead Cost Allocation

City of Oroville

Clerk's Office, 1308 Ironwood, PO Box 2200, Oroville, Washington, 98844, (509) 476-2926, Fax (509) 476-9067

OFFICERS:

Edward A. Naillon, Mayor
JoAnn L. Denney, Clerk-Treasurer
Steven G. Thompson, City Superintendent
Michael T. Langford, Police Chief
Bryan F. Forbus, Building Official

COUNCIL MEMBERS:

Tasha A. Shaw
Michael H. Marthaller
Richard T. Werner
Walter A. Hart
Kolo Moser

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Oroville January 1, 2020 through December 31, 2022

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

Audit Period: 2018 – 2019	Report Ref. No.: 1027977	Finding Ref. No.: 2019-002
Finding Caption: The City did not have adequate controls over the allocation of shared costs to restricted funds.		
Background: The City allocates about \$600,000 annually of salary, benefit, utility, and insurance costs to its special revenue and proprietary funds. The City does not have written policies or procedures adopting a fair and equitable method of allocating costs or support for the allocation methods and calculations used. In addition, we identified costs allocated were not equitable as not all benefiting funds were charged, such as the Street Fund. We have reported concerns over the City's cost allocation plan since 2008, including management letters in the prior two audits. Without support for the allocation of costs, the City cannot demonstrate amounts were fair, equitable, or representative of the services each fund received. Further, the City cannot show it complied with state laws that prohibit shifting restricted resources to other funds. Therefore, utility customers could be inappropriately supporting general government funds through their utility payments.		
Status of Corrective Action: <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 Clerk has begun the work on a cost allocation policy, however, a final policy has not been created. The City Department Heads ensure that the actual expenditures are paid for appropriately by the fund incurring the expenditure.</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 Oroville was established in 1908 and currently serves nearly 1,700 citizens in Okanogan County.

The City is governed by a five-member council and elected Mayor. The City's 18 employees provide services including water, sewer, garbage, law enforcement, and fire protection services. In fiscal years 2020, 2021 and 2022, the City had approximately \$2.9 million, \$2.7 million and \$3.4 million in expenditures, respectively.

Contact information related to this report

Address:	City of Oroville P.O. Box 2200 Oroville, WA 98844
Contact:	JoAnn Denney, Clerk-Treasurer
Telephone:	(509) 476-2926 x 101
Website:	oroville-wa.com

Information current as of report publish date.

Audit history

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