



# Washington State Auditor's Office

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## Accountability Audit Report

# Town of Elmer City

Okanogan County

For the period January 1, 2012 through December 31, 2014

Published July 18, 2016

Report No. 1016689





## Washington State Auditor's Office

July 18, 2016

Mayor and Town Council  
Town of Elmer City  
Elmer City, 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 Town 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 report on the Town's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, Town operations complied with applicable requirements and provided adequate safeguarding of public resources. The Town also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Town could make improvements.

We recommended the Town to establish a formal comprehensive plan to specifically target cash flow issues, closely monitor and evaluate the financial activities to ensure the plan is being followed, and develop a cost allocation plan that documents the rationale for charging costs to each fund.

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of the Town of Elmer City from January 1, 2012 through December 31, 2014.

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.

Our audit involved performing procedures to obtain evidence about the Town'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, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Financial condition
- Cash receipting
- Utility billing and adjustments
- Cost allocation plan

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2014-001    The financial condition of the Town’s Water/Sewer Fund has declined.**

***Background***

The Town of Elmer City primarily provides water, sewer and street services to its approximately 300 citizens. The Town employs one town clerk and a public works supervisor. Over the past five years, the financial condition of the Town’s Water/Sewer Fund has been declining. The Town has made efforts to reduce expenses and increase revenue; however, continued improvements are needed.

***Description of Condition***

**Financial Position:**

Water/Sewer Fund operating expenditures exceeded revenues in four of the last five years:

	<b>2010</b>	<b>2011*</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Revenues	181,755	820,682	349,249	193,310	179,499
Expenditures	186,915	790,726	383,243	197,037	215,213
Gain/(loss)	(5,160)	29,956	(33,994)	(3,728)	(35,713)
Ending Fund Balance	111,525	141,481	107,487	103,759	68,046

*\*The Town had a Federal construction project in 2011*

Between approximately \$41,000 and \$52,000 of the fund’s annual expenditures consist of contract payments to the Town of Coulee Dam for wastewater treatment. As of February 2016, the Town of Coulee Dam has billed \$33,141 to the Town of Elmer City for wastewater treatment facility and land acquisition; however, the Town of Elmer City is disputing these costs. The Town is researching options to build its own wastewater treatment facility utilizing federal funding, in order to alleviate costs associated with its contract with the Town of Coulee Dam.

In fiscal year 2016, the Town adopted a formal resolution to tax the Water/Sewer Fund for general administrative expenses. Although this resolution is expected to improve the cash flow and the financial condition of the General Fund, it will further deteriorate the financial condition of the Water/Sewer Fund.

**Cost Allocation:**

Towns routinely share payroll expenses across funds that receive benefit from those services. Towns must adopt a fair and equitable method of distributing these shared costs among funds, including the restricted proprietary funds. State law (RCW 43.09.210) prohibits resources restricted for certain uses, such as utilities, from benefitting other funds of the Town.

The Town’s method of allocating payroll expenses across funds is a contributing factor to the declining financial condition of the Water/Sewer Fund. The Town allocated payroll expenses based on estimated percentages, but could not demonstrate these percentages represented a fair and equitable depiction of benefits received by the fund. This increases the risk that Water/Sewer is inappropriately paying more than its fair share of expenses. As evidence of this risk, the Street Fund did not pay for its share of employee services received in 2012 and 2013, and only paid 5 percent of the Public Works employee’s time in 2014, when it reasonably received a greater benefit. In 2012-2014, the Town allocated a total of approximately \$126,500 in payroll expenditures to the Water/Sewer Fund using the following allocation:

	<b>2012</b>	<b>2013</b>	<b>2014</b>
Clerk/Treasurer	33% General Fund 66% Water Sewer	33% General Fund 66% Water Sewer	50% General Fund 50% Water/Sewer
Public Works Director	100% Water/Sewer	100% Water/Sewer	95% Water/Sewer 5% Streets

*Cause of Condition*

**Financial Position:**

The Town’s water and sewer revenue has not been able to sustain the associated expenses. In an effort to increase water revenue, the Town increased water rates and changed the base consumption of water from 10,000 gallons to 7,500. However, the changes did not increase revenue as the Town expected.

Based on its contract with the Town of Coulee Dam, the Town of Elmer City pays a percentage of total operating expenditures, which could fluctuate from month to month, whereas the residents of the Town pay an established flat rate on monthly basis. As such, the Town may not always fully recoup the cost of services from its customers. Until alternative options become available, the Town will be obligated to continue paying for this service.

### **Cost Allocation:**

The Town did not dedicate the time and resources necessary to perform a study to determine if allocation percentages are fair, equitable and representative of the services provided.

### ***Effect of Condition***

#### **Financial Position:**

If expenditures continue to exceed revenues, available cash resources in the Water/Sewer Fund will continue to decrease and the Town may not be able to provide services at current levels or meet operating expenses in the future.

#### **Cost Allocation:**

As a result of the cost allocation conditions identified above, the Town is unable to demonstrate how \$126,500 in shared costs allocated over 2012-2014 complied with state laws, which prohibit shifting restricted resources to other funds. When costs charged to utility funds exceed the benefit the fund received, customers may pay higher rates than necessary for services.

### ***Recommendation***

We recommend the Town:

- Establish a formal, comprehensive plan that includes detailed financial benchmarks and guidelines to specifically target cash flow issues.
- Closely monitor and evaluate the financial activities to ensure the plan is being followed and the desired results achieved. It should revise the plan if expected improvements are not achieved.
- Develop and follow a cost allocation plan that documents the rationale for charging costs to each fund. In addition, the Town should retain support of the calculation and actual charges to each fund, and review and update the cost allocation plan on an annual basis.

### ***Town's Response***

*The 1975 Waste Water Treatment Facility (WWTF) Agreement with Coulee Dam has been a true and progressively worsened financial burden. In the early years the wage distribution for Coulee Dam WWTF was slightly less than 1.0 FTE (full time employee) and had increased to 1.60 FTE in 2008, 1.65 in 2009, 1.85 in 2010 through 2013. The FTEs were reduced to 1.57 in 2014 with an ongoing*

*negotiation with Coulee Dam. The FTEs were further reduced by Elmer City (with no response by Coulee Dam) when it was observed the WWTF operator (100% changed to 75%) was also the only Water Treatment Facility Operator (zero % changed to 20% and 5% for his work with Sewer Operations).*

*In 2014 the Town of Coulee Dam chose to replace the WWTF clarifier and the Town of Elmer City was responsible for approximately 20% of the \$42,619.10 cost. (We read about that “improvement” in the newspaper.)*

*The Town of Elmer City also contracted with Indian Health Service (JHS) in 2014 for a feasibility study and our share of the expected expense was \$6,400. The study is not yet complete. We need to be able to control WWTF costs and are unable to do that with the current agreement with Coulee Dam. If Elmer City is required to stay Coulee Dam’s WWTF and planned new facility, it is estimated the rate payers in Elmer City will pay approximately \$75 a month for sewer service. With the prior history with Coulee Dam billing practices, it could be more. We are hoping the study will result in a solution that will cost the rate payers less per month.*

*The Town of Elmer City also incurred unusual Attorney fees regarding our dispute with the Town of Coulee Dam on WWTF billing. The Town of Elmer City has refused payment for all WWTF billings not included in the 1975 Agreement list of allowable expenditures. We are not obligated to pay for un-funded arid redundant engineering costs and Land purchases.*

*The Coulee Dam billing adjustments took place from March 2014 to March 2015. The latest billing adjustment for 2015 was in March 2016.*

*The change in base consumption of water from 10,000 gallons to 7,500 gallons was considered a water conservation initiative and was not expected to raise revenue significantly. The increase was approximately \$1.25 during the summer months for households using city water to irrigate.*

*Sewer Rates had not been increased since about 2002. The Town of Elmer City increased Water rates \$1.00 about 2005.*

*The current Mayor and Town Council have made adjustments in the 2014, 2015 and again in the 2016 Budgets. In the 2014 Budget the Clerk/Treasurer’s wages were changed from 33% General Fund /66% Water - Sewer to 50% to 50% General Fund / 50% Water Sewer. The Public Works Director’s wages were changed from 100% Water - Sewer to 95% Water - Sewer / 5% Streets. Additional budget wage/benefit adjustments will be made in 2017 for the Public Works Director.*



*Our monthly billings to rate payers have increased significantly:*

- *About 2002-2013 Water: \$23.50 in town, \$47.00 outside of town; Sewer: \$35.00 in town, \$36.00 outside of town*
- *2014 Water: \$24.50 in town, \$48.00 outside of town*
- *2015 Water: \$27.00 in town, \$54.00 outside of town; Sewer: \$38.00 in town, \$39.00 outside of town*
- *2016 Water: \$28.00 in town, \$56.00 outside of town; Sewer: \$41.00 in town, \$42.00 outside of town*

*In the 2016 Budget new taxes and Budget Adjustments were added:*

1. *Property Tax was budgeted from 100% General Fund to 80% Street Fund (no real revenue will occur until after the April 30, 2016 property tax payments.*
2. *Water - Sewer 5% B&O tax on Water - Sewer Revenues to be transferred to General Fund. This is not an unusual or unheard of tax and should have been done several years ago. (transfers started in February 2016)*
3. *6% Telephone Utility Tax - Benefiting General Fund (collection may start in April or May 2016)*
4. *3% Electricity Utility Tax - Benefiting General Fund (collections started April 2016)*
5. *\$20 License Tab Tax - to go to the newly formed Transportation Board District and benefiting the Street Fund (collections may start in August 2016)*

*The purpose of these new taxes is to increase the revenue to the General Fund and Street Fund and will allow further wage distribution (in 2017) for the Public Works Director for building maintenance and parks (General Fund) and snow removal, weed/brush control, street improvements, and repair (Street Fund). However, he did have additional responsibilities with the addition in 2012 of new water system and customers. He will have further duties if the town builds a new WWTF. We do not expect to hire additional workers.*

*We have evaluated the cash flow for Current Expense and Street Funds and will be doing a wage adjustment for maintenance wages and benefits. Starting in July, 20% of maintenance wages and benefits will come from Streets. Our maintenance man has been spending additional time with the new sidewalk project.*

### *Auditor's Remarks*

We appreciate the Town's commitment to resolve this finding and thank the Town for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### *Applicable Laws and Regulations*

RCW 35.33.123 Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized.

Whenever any city or town apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city or town, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's or town's current expense fund for the value of such services.

RCW 43.09.210, Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property, states in part:

Separate accounts shall be kept for every appropriation or fund of a taxing or legislative body showing date and manner of each payment made therefrom, the name, address, and vocation of each person, organization, corporation, or association to whom paid, and for what purpose paid.

Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body. All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another . . . .

RCW 43.09.200, Local government accounting – Uniform system of accounting.

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 therefrom; 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.

## INFORMATION ABOUT THE TOWN

The Town of Elmer City, incorporated in 1947, serves approximately 450 citizens in Okanogan County. The Town provides services including water, sewer, sanitation and street maintenance.

An elected, five-member Council and independently elected Mayor govern the Town and its two full-time employees. For fiscal years 2012, 2013 and 2014, the Town operated on annual revenues of \$439,401, \$285,174 and \$274,558, respectively.

<b>Contact information related to this report</b>	
Address:	Town of Elmer City 505 Seaton Avenue P.O. Box 179 Elmer City, WA 99124-0179
Contact:	Gary Benton, Clerk/Treasurer
Telephone:	(509) 633-2872

*Information current as of report publish date.*

### **Audit history**

You can find current and past audit reports for the Town of Elmer City 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
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<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>