

Washington State Auditor's Office

Audit Report

City of Sultan Snohomish County

Audit Period
January 1, 1997 through December 31, 1998

Report No. 61155

Issue Date
March 10, 2000



Washington _____
State Auditor
_____ Brian Sonntag

Audit Summary

**City of Sultan
Snohomish County
January 1, 1997 through December 31, 1998**

ABOUT THE AUDIT

This report contains the results of our audit of the City of Sultan for the period January 1, 1997, through December 31, 1998.

We performed procedures to determine whether the City complied with state laws and regulations, its own policies and procedures, and federal grant requirements. We also audited the City's financial statements and evaluated the internal controls established by City management. Our work focused on specific areas that had potential for abuse and misuse of public resources.

RESULTS

In most of the areas, the City complied with state laws and regulations and its own policies and procedures. We identified one condition significant enough to report as a finding.

- The former City Administrator/City Attorney used his position for personal benefit.

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Snohomish County
January 1, 1997 through December 31, 1998**

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Description of the City

City of Sultan Snohomish County January 1, 1997 through December 31, 1998

ABOUT THE CITY

The City of Sultan was established in 1908 and serves a population of 2,885. The City encompasses approximately 2.5 square miles in Snohomish County and is administered by a Council/Mayor form of government. There are five elected Council Members and an elected Mayor. The City's 35 employees provide administrative, planning, water, sewer, police, solid waste collection, and public works services with an annual budget of \$1,267,201 in the City's General Fund. The City contracts its library services through the Sno-Isle Regional Library District.

ELECTED OFFICIALS

These officials served during the audit period:

Mayor	Robert Broughton
Council:	Carolyn Eslick
	Robert Ostrom
	Mark Tuohy
	Jim Porter
	Daren Nygren (1997)
	C. H. Rowe (1998)

APPOINTED OFFICIALS

City Administrator/City Attorney	William Trippett
Clerk-Treasurer	Laura Koenig
Chief of Police	Fred Walser

ADDRESS

City	703 First Street Sultan, WA 98294 (360) 793-2231
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Audit Areas Examined

City of Sultan Snohomish County January 1, 1997 through December 31, 1998

In keeping with general auditing practices, we do not examine every portion of the City of Sultan's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the City were examined during this audit period:

LEGAL COMPLIANCE

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Budgets
- Open Public Meetings Act
- Insurance and bonding
- Legal investments
- Ethics/conflicts of interest law
- Bid laws and prevailing wage
- Police Department property room
- Police Department's citation controls

INTERNAL CONTROL

We evaluated the following areas of the City's internal control structure:

- Cash receipts
- Revolving accounts
- Purchase of goods and services
- Cash disbursements
- Payroll
- Property and equipment

FINANCIAL AREAS

In addition to the financial-related work listed in other categories, we audited the following areas:

- Cash
- Long-term debt
- Overall presentation of the financial statements
- Revenues
- Expenditures/expenses
- Investments
- Budget

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with federal laws and regulations. We audited the U.S. Department of Agriculture's Rural Development grant (CFDA 10.760) at the City of Sultan. For more details, see the Federal Summary section of this report.

Our examination included the following requirements that may have a direct and material effect on the major program:

- Spending of grant funds for allowable purposes
- Prevailing wage requirements under the Davis-Bacon Act
- Providing nonfederal funds to meet grant matching requirements
- Financial reporting

Audit Overview

**City of Sultan
Snohomish County
January 1, 1997 through December 31, 1998**

AUDIT HISTORY

The City of Sultan is audited every two years. During the last five audits, there have not been any findings. Over the years, audit recommendations have been positively acknowledged and implemented by the City.

CONCLUSIONS

In most areas, the City of Sultan complied with state laws and regulations, its own policies and procedures, and federal financial assistance requirements. We identified one condition significant enough to report as a finding. That condition is discussed in the findings section of this report.

We thank the City officials and personnel for their assistance and cooperation throughout the audit.

Schedule of Audit Findings

City of Sultan Snohomish County January 1, 1997 through December 31, 1998

1. The former City Administrator/City Attorney used his position for personal benefit.

Description of Condition

During our audit we received a citizen referral alleging that the City Administrator/City Attorney was using his position for personal benefit. The citizen raised a number of issues including misuse of City facilities, equipment, time and resources. We gathered information from the City Administrator's City-owned computers, interviewed City employees and examined certain City financial records. Our audit procedures disclosed that the former City Administrator/City Attorney:

- Operated a private law practice using City facilities, equipment, time and resources. For example, he:
 - Advertised his private law practice on a national web site (e.g., Aircraft Owners and Pilots Association) using the City's telephone number.
 - Corresponded with his law practice clients using letterhead with the City's telephone number.
 - Conducted his private law practice during regular business hours at City Hall.
 - Received compensation from the clients for the legal services rendered.

- Improperly used City-owned computers. For example, he:
 - Prepared personal legal documents for City employees during the normal workday.
 - Placed private law practice documents on the City-owned computers connected to the City's network server.
 - Used City-owned computers to send and receive numerous personal e-mail messages.
 - Used City-owned computers to conduct Internet job searches and to e-mail resumes and cover letters to prospective employers.
 - Used City-owned computers to play computer games (e.g., "Flight Simulator") during regular business hours.
 - Took a City-owned laptop computer on his personal vacation to Norway to record his memoirs.

- Incurred inappropriate and/or questionable expenditures to the City. For example, he:
 - Caused the City to incur registration and travel expenses for a conference in Washington D.C. the City Administrator did not attend. The City subsequently requested and received a partial refund of the conference registration from its sponsor.
 - Caused the City to purchase a CD Law Library, costing \$1,475.52, which included reimbursing the City Administrator \$800 and paying the remaining balance of \$675.52 to CD Law Inc. This is an unusual purchase for a City of this size since the City already owned a complete set of the *Revised Code of Washington*.

Cause of Condition

The City has very detailed policies concerning the improper use of City resources and computers. The Mayor did not monitor the activities of the City Administrator. Further, City employees informed elected officials of these improper practices but it appears no action was taken to enforce compliance with City policies.

Effect of Condition

We believe the circumstances detailed above violate the City's policies. However, more importantly, the toleration of those circumstances has a more detrimental impact upon the City's operations. Public officials and municipal officers have a special duty to the public to ensure that public resources are properly managed. An essential element in the proper management of public resources is the maintenance of sound internal controls. A key component in maintaining sound internal controls is the City's "control environment" (i.e., "corporate culture," "tone at the top"). It is critical that City management lead by example, creating and maintaining a control environment that sets the standard for the entire organization.

Recommendations

We recommend the City:

- Actively require compliance with its policies by all managers and employees.
- Establish, maintain and monitor a strong internal control system throughout all departments.

City's Response

The violations, if they occurred, are not likely to be repeated. The City has reviewed its policies and procedures and has been in the process of updating some of these policies. The City's staff will be engaging in additional training courses which we believe will be helpful in avoiding any similar allegations in the future.

The City of Sultan has recently expanded its council from five to a seven-member council and, as a result of this expansion, as well as recent elections, the present council is composed of four new individuals that were not on the council during the period of this audit. Sultan has also elected a new mayor and has recently hired a new city administrator. All of these individuals have been made aware of the allegations and will receive sufficient information and training so as to be ready and able to comply with all policies established by the City. The mayor and council presently in office should be able, as you put it, to establish, maintain, and monitor a strong internal control system throughout all city departments.

If we gain additional information, we may wish to supplement our comments, but appreciate this opportunity for comment.

Auditor's Remarks

We would like to thank the City for its response to our report finding. Based upon the response, we feel that the issue delineated in our report is being addressed. We will review this area in our subsequent audit.

We would also like to take this opportunity to express our appreciation for the assistance and cooperation we received throughout the audit.

Applicable Laws and Regulations

City of Sultan Policies:

Policy 8.01 - GENERAL CODE OF CONDUCT states in part:

Proper working relationships between employees and the City depends on each employee's on-going job performance, professional conduct and behavior. The City, as minimum standards of personal conduct, basic tact and courtesy towards the public and fellow employees; adherence to City policies, procedures, safety rules and safe work practices; compliance with the directions from supervisors; preserving and protecting the City's equipment, grounds, facilities and resources; and providing orderly and cost efficient services to its citizens. (Emphasis added.)

Policy 8.02 - OUTSIDE EMPLOYMENT AND CONFLICTS OF INTEREST states:

Outside Employment: Employees may engage in another job outside their City employment as long as it does not conflict with the best interests of the City or interfere with the employee's ability to perform. Specifically, outside activities may not: (Emphasis added.)

- 1) Prevent the employee from being available to work beyond normal working hours,
- 2) Be conducted during the employee's work hours;
- 3) Utilize City telephones, computers, supplies, or other resources, facilities, or equipment;
- 4) Be employed with a firm which has contracts with or does business with the City, and
- 5) Reasonably be perceived by members of the public as a conflict of interest or otherwise discredit to public service.

Conflicts of Interest: No employee of the City of Sultan shall use their position for personal gain and shall avoid conflicts of interest or the appearance of conflicts of interest.

Policy 8.05 - PERSONAL POSSESSIONS AND ELECTRONIC COMMUNICATIONS states in part:

Computers are furnished for use in conducting City business. Because the computers are for City business, the City reserves the right to review the contents of any files or documents on the computer, including contents of any electronic mail. City computers are not to be used for personal use. (Emphasis added.)

RCW 42.23.070(1) states in part:

No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself or others.

Federal Summary

**City of Sultan
Snohomish County
January 1, 1997 through December 31, 1998**

The results of our audit of the City of Sultan are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued an unqualified opinion on the City's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the City.
- We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The City did not qualify as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.760	USDA Rural Development Sewer Plant

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

**City of Sultan
Snohomish County
January 1, 1997 through December 31, 1998**

Mayor and Council
City of Sultan
Sultan, Washington

We have audited the financial statements of the City of Sultan, Snohomish County, Washington, as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated November 10, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the City complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the City's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the City and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

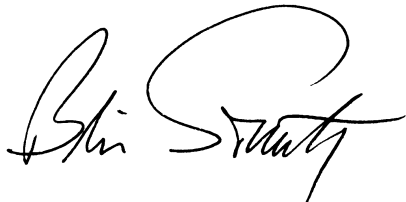
The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements, which is identified in the accompanying Schedule of Audit Findings as Finding 1.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Mayor and Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large loop at the end of the last name.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 10, 1999

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Sultan
Snohomish County
January 1, 1997 through December 31, 1998**

Mayor and Council
City of Sultan
Sultan, Washington

COMPLIANCE

We have audited the compliance of the City of Sultan, Snohomish County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the years ended December 31, 1998 and 1997. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

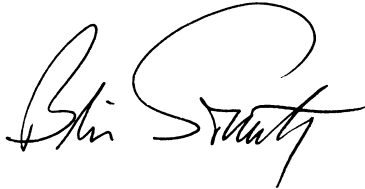
In our opinion, the City complied, in all material respects, with the requirement referred to above that are applicable to its major federal program for the years ended December 31, 1998 and 1997.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Mayor and Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

November 10, 1999

Independent Auditor's Report on Financial Statements

City of Sultan Snohomish County January 1, 1997 through December 31, 1998

Mayor and Council
City of Sultan
Sultan, Washington

We have audited the accompanying financial statements of the City of Sultan, Snohomish County, Washington, for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

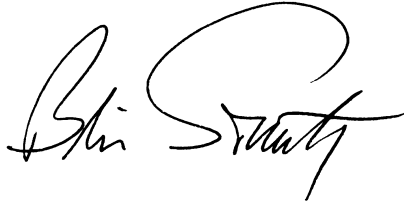
As described in Note 1b to the financial statements, the City prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Sultan for the years ended December 31, 1998 and 1997, on the cash basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 1999, on our consideration of the City's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Debt and Schedules of State and Local Financial Assistance are also presented for purposes of additional analysis.

These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

November 10, 1999

Financial Statements

**City of Sultan
Snohomish County
January 1, 1997 through December 31, 1998**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 1998
Fund Resources and Uses Arising from Cash Transactions – 1997
Notes to Financial Statements – 1998

ADDITIONAL INFORMATION

Schedule of Long-Term Debt – 1998
Schedule of Long-Term Debt – 1997
Schedule of State and Local Assistance – 1998
Schedule of State and Local Assistance – 1997
Schedule of Expenditures of Federal Awards – 1998
Notes to Schedule of Financial Assistance – 1998