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February 25, 2004

Honorable Mayor Tolson
and City Council
City of Sultan
319 Main Street
P.O. Box 119
Sultan, WA 98294

Management Letter

In planning and performing our audit of the City of Sultan for the period January 1, 2002 through December 31, 2002, we noted some areas in which the City's internal control structure could be improved. While not included in our report, these items are presented to assist you in improving the City's internal control structure.

Our audit report on the City's internal control structure and compliance with laws and regulations is not affected by this letter.

We will review the status of these comments during our next audit. We have already discussed these comments and made suggestions for improvements to City of Sultan officials and personnel. We would be pleased to discuss them in further detail at your convenience, or to assist you in implementing the recommendations. If you have any questions, please contact Sadie Armijo, at (425) 672-1321.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

A handwritten signature in cursive script that reads "Sadie J Armijo".

Sadie Armijo
Audit Manager
Lynnwood, WA



Management Letter
City of Sultan
January 1, 2002 through December 31, 2002

❖ **Monitoring Debt Service Requirements**

The City does not have effective controls to ensure that debt service payments are made on a timely basis. The City issued \$1.5 million in bonds on October 1, 1996 with principal redemption requirements of about \$50,000 per year starting in 1997. The City and its fiscal agent did not call or redeem scheduled redemptions for 1997 through 2000 until 2001. The City and its fiscal agent did not call or redeem the scheduled 2002 redemption until 2003.

As we did in 2000 and 2001, we recommend the City prepare schedules for all debt and make payments on time.

❖ **Utility Adjustments**

Internal controls over adjustments to receivables in the utility billing system are inadequate. The receivables system creates a large number of adjustments due to inactive accounts.

The billing system generated more than \$1.5 million in billings during 2002. Net adjustments reduced the related receivables by \$40,297. When we reviewed \$16,366 of adjustments made in July 2002, we found the City had documentation for only \$1,303 of them. Our further review showed that the balance of the adjustments appeared reasonable, however, the control system used for monitoring adjustments is not adequate.

The City should improve controls to effectively monitor all utility adjustments.

❖ **Building Permits**

Internal controls and monitoring over building permits needs to be improved. Controls can be improved over cash receipts and the transmittal of permit information to the County Assessor's Office.

We have identified the following weaknesses at the Building Department:

- Building permits are not pre-numbered.
- The permit log is prepared in pencil.
- Permit numbers are not recorded on the receipt used to record the payment.
- The Treasurer's receipt numbers are not recorded on the related building permit and in the permit log.

As a result of the above weaknesses, the risk of loss, misuse or misappropriation increases.

Controls are not effective to ensure that permits are transmitted to the County Assessor in a timely manner. Our audit found the City had not transmitted permits to the Assessor's Office for nine months. As a result, the assessed valuations of some new construction are not included in property tax roles and the City loses property tax revenue to which it is entitled.

We recommend controls over and monitoring of building permits be improved.