

Washington State Auditor's Office
Audit Report

City of Sultan
Snohomish County

Audit Period
January 1, 2000 through December 31, 2000

Report No. 62912

Issue Date
December 28, 2001



Washington _____
State Auditor
_____ Brian Sonntag

Audit Summary

**City of Sultan
Snohomish County
January 1, 2000 through December 31, 2000**

ABOUT THE AUDIT

This report contains the results of our independent audit of the City of Sultan for the period January 1, 2000, through December 31, 2000.

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

RESULTS

In most areas examined, the City complied with state laws and regulations and its own policies. The City also complied with federal requirements for the grants that were received except for one finding on the following federal grant:

- The City's accounting procedures for the COPS Universal grants, CFDA 16.710, are inadequate to allow effective monitoring of the programs.

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Snohomish County
January 1, 2000 through December 31, 2000**

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Description of the City

City of Sultan Snohomish County January 1, 2000 through December 31, 2000

ABOUT THE CITY

The City of Sultan was established in 1905 and serves a population of about 3,180. The City encompasses approximately 2.5-square miles in Snohomish County and is administered by a council-mayor form of government. There are seven elected Council Members and an elected Mayor. The Council was increased from five to seven Council Members at the beginning of 2000. The City's 34 employees provide administrative, planning, water, sewer, police, solid waste collection and public works services with an annual budget of \$16,120,356 for all funds. The City contracts its library services through the Sno-Isle Regional Library District.

ELECTED OFFICIALS

These officials served during the audit period:

Mayor	C.H. Rowe
Council Members:	Cindy Broughton (appointed January 10, 2000)
	Robert Criswell (appointed January 24, 2000)
	Carolyn Eslick
	Perry McPherson
	Robert Ostrom
	Jim Porter
	Mark Raney (appointed January 24, 2000)

APPOINTED OFFICIALS

Clerk-Treasurer	Laura Koenig
Chief of Police	Fred Walser
City Attorney	Grant Weed

ADDRESS

City	Suite 200
	319 Main Street
	P.O. Box 119
	Sultan, WA 98294
	(360) 793-2231

Audit Areas Examined

City of Sultan Snohomish County January 1, 2000 through December 31, 2000

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
- Ethics/conflict of interest laws
- Long-term debt
- Budget
- Interfund activity
- Bid laws and prevailing wage
- Insurance
- Police Department citation/infracton controls, concealed weapons permits and evidence room controls

INTERNAL CONTROL

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

- Cash receipts
- Change funds/petty cash
- Billings for utilities
- Cash and investments
- Cash disbursements
- Payroll
- Treasurer's account

FINANCIAL AREAS

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

- Cash and investments
- Expenditures
- Revenue
- Long-term debt
- Overall presentation of the financial statements

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with federal laws and regulations. We audited the U.S. Department of Justice COPS Fast Program (CFDA 17.710) and U.S. Department of Commerce (CFDA 11.300) at the City of Sultan. For more detail, 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 federal program:

- Spending of grant funds for allowable purposes/activities
- Matching of funds
- Financial reporting
- Prevailing wage requirements under Davis-Bacon Act
- Period of availability
- Procurement

Audit Overview

**City of Sultan
Snohomish County
January 1, 2000 through December 31, 2000**

AUDIT HISTORY

The City of Sultan is usually audited every two years, however, an annual audit was required to meet federal single audit requirements for calendar year 2000. There were two audit findings in the last five years that were resolved. Over the years, audit recommendations have been positively acknowledged and put into practice by the City.

CONCLUSIONS

In most areas examined, we found the City complied with state laws and its own policies and procedures. However, we did identify one condition significant enough to report as a finding. This condition is discussed in the findings section of this report.

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

Federal Summary

City of Sultan Snohomish County January 1, 2000 through December 31, 2000

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 noted significant deficiencies in the design or operation of internal control over major federal programs that we consider to be reportable conditions. We consider Finding 1 to be a material weakness.
- We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs.
- We reported a finding, which is 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 were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
11.300	U.S. Department of Commerce
16.710	U.S. Department of Justice

Schedule of Federal Audit Findings

City of Sultan Snohomish County January 1, 2000 through December 31, 2000

1. The City of Sultan's accounting procedures for the COPS Universal grants, CFDA 16.710, are inadequate to allow effective monitoring of the programs.

Description of Condition

The City's accounting procedures do not ensure compliance with grant requirements. Specifically, we found:

- In April 2000, an officer resigned from a COPS position that had been created with a 1997 grant. The position was not refilled. Another officer was hired, but was charged against the 1999 COPS grant rather than the 1997 position. Additionally, a third officer, who appeared to be eligible for the COPS grant, was never charged to any of the grants.
- COPS grants run for a period of three years with the City fully funding the officer in the fourth year. The City is required to submit quarterly reimbursement reports 45 days after the close of the quarter. The City was late in filing those reimbursement requests.

Cause of Condition

The City did not adequately plan for the administrative and accounting procedures necessary to oversee the COPS program. For example, the City's did not adequately review tracking of officer participation by grant was not adequately reviewed; the timeframe for grant reimbursement was not checked to ensure that the entire grant was billed within the allowed period and that each eligible officer was billed to the grant.

Effect of Condition

The City is at risk of losing the opportunity for reimbursement unless the Department of Justice grants a waiver. To date, the City has not received the waiver, which would allow it to apply for additional COPS funding.

Recommendations

We recommend the City:

- Ensure that staff members responsible for the administration of the grants receive the training and supervision necessary to comply with program requirements.
- Monitor compliance with grant requirements and the periods of availability for the grants to ensure that the costs have been properly tracked and the claims for reimbursements are made in a timely manner.
- Prepare and submit timely reimbursement requests to the Department of Justice.

City's Response

The City of Sultan has participated in the COPS programs since 1995 and has received grants for nine full-time officers. During this time, two officers have left the employment of the City for other jobs and seven are still currently employed full-time. We have been very cautious to check hire dates for eligibility and in fact, were unable to place a new hire under the program in 1997 because he was hired four days prior to the grant award date.

The COPS program was audited during the 1999 and 2000 audit. Detailed information on the dates of hire, amounts claimed, dates claimed and the end date of the programs was provided to the State Auditor for the 1999 audit. The same information was again provided during the 2000 audit.

In response to the specific listed noncompliance issues:

- 1. Each position in the COPS programs is limited to a maximum grant of \$75,000. To insure that no claim was submitted for more than the grant amount, tracking has been done using Officer's name instead of using a position numbering system. Information was provided during the audit to show officers by position. Since the amount claimed is based on entry level pay, recalculating the amount due for reimbursement will change very little and will more likely show that we were entitled to additional funds. The maximum amount the City can claim can still not exceed \$75,000. Detailed accounting for each officer was provided to the Auditor.*
- 2. According to the most recent Supplemental Award document, the revised award end date is August 31, 2002. Forms are submitted to the COPS program advising that an extension is required. The revised contract would indicate that those requests have been honored.*
- 3. The request for reimbursements is submitted at the end of each quarter within an average of a thirty day time frame. There were only a couple of times the requests were submitted after the 45-day time frame, however, reimbursement was received. The School Officer program was submitted timely and rejected because the COPS office did not have them set up in their computers. Three quarters were submitted at one time after several phone calls and submittals to the COPS office.*

The COPS program provided detailed training to the Grantees in August 2000, five years after the start of the program. The City staff has been diligent about tracking qualified officers, submittal of reimbursement requests and compliance with the program requirements.

Auditor's Remarks

We would like to thank the City for its response and to acknowledge the efforts in addressing the concerns. Based upon the City's representations, it appears the matters delineated in this finding are being addressed. We will follow up on these matters in our subsequent audits.

Applicable Laws and Regulations

OMB Circular A-133's Compliance Supplement, Part 3 Section C paragraph (b)

Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

OMB Circular A-133's Compliance Supplement, Part 4 Section H

The grant award period runs from the Official Award Start Date, which may be found on the award document, for three full years.

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, 2000 through December 31, 2000**

Mayor and Council Members
City of Sultan
Sultan, Washington

We have audited the financial statements of the City of Sultan, Snohomish County, Washington, as of and for the year ended December 31, 2000, and have issued our report thereon dated November 29, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits 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 certain matters involving noncompliance not significant enough to report as findings that we have reported to management of the City in a separate letter dated November 29, 2001.

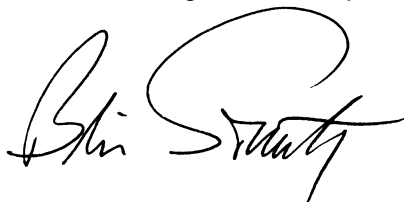
INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated November 29, 2001.

This report is intended for the information of management, the Mayor and Council Members, 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 29, 2001

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, 2000 through December 31, 2000**

Mayor and Council Members
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 each of its major federal programs for the year ended December 31, 2000. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits 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 a major federal program 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 requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings as Finding 1.

In addition, we noted certain matters involving immaterial noncompliance that we have reported to management of the City in a separate letter dated November 29, 2001.

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

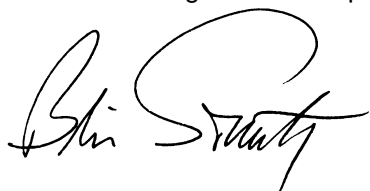
determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Federal Audit Findings as Finding 1.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding 1 to be a material weakness.

We also noted other matters involving internal control over compliance that we have reported to the management of the City in a separate letter dated November 29, 2001.

This report is intended for the information of management, the Mayor and Council Members, 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

November 29, 2001

Independent Auditor's Report on Financial Statements

City of Sultan Snohomish County January 1, 2000 through December 31, 2000

Mayor and Council Members
City of Sultan
Sultan, Washington

We have audited the accompanying financial statements of the City of Sultan, Snohomish County, Washington, for the year ended December 31, 2000. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits 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.

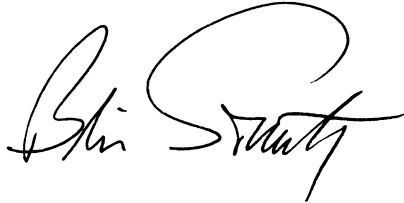
As described in Note 1 b to the financial statements, the City prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive 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 year ended December 31, 2000, on the cash basis of accounting described in Note 1 b.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2001, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt and

Schedule 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.

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 29, 2001

Financial Statements

**City of Sultan
Snohomish County
January 1, 2000 through December 31, 2000**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2000
Notes to Financial Statements – 2000

ADDITIONAL INFORMATION

Schedule of Long-Term Debt – 2000
Schedule of State and Local Financial Assistance – 2000
Schedule of Expenditures of Federal Awards – 2000
Notes to the Schedule of Financial Assistance – 2000