



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Sedro-Woolley

For the period January 1, 2020 through December 31, 2021

Published January 19, 2023

Report No. 1031800



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

January 19, 2023

Council
City of Sedro-Woolley
Sedro Woolley, 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 those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

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 Sedro-Woolley from January 1, 2020 through December 31, 2021.

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, 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 plan – equitable distribution of indirect costs
- Courts – cash receipting, adjustments, collections, trust account activity
- Compliance with procurement – public works and change orders
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Sedro-Woolley January 1, 2020 through December 31, 2021

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

Audit Period: January 1, 2018 – December 31, 2019	Report Ref. No.: 1027683	Finding Ref. No.: 2019-001
Finding Caption: The City did not have adequate controls over the allocation of shared costs to restricted funds.		
Background: <p>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.</p> <p>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 government.</p> <p>The City of Sedro-Woolley has developed a cost allocation plan which allocates shared costs to several funds. In 2019, the City allocated about \$1.9 million in indirect costs in accordance with this plan.</p> <p>The City's allocation plan does not ensure that charges reflect the benefit each fund receives, especially restricted funds like the utilities. Specifically, 33.33 percent of all fire department costs were charged to the utility funds, resulting in total unallowable charges of \$489,758, including \$313,257 to the Sewer fund and \$176,501 to the Storm Water fund. When costs allocated to restricted utility funds are not reasonable, City utility customers might be paying higher rates unnecessarily.</p> <p>Further, the unsupported factors used to allocate costs from departments, such as Finance and Legal, make it difficult to determine if all of these charges are equitable.</p>		
Status of Corrective Action: (check one)		
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected
		<input type="checkbox"/> Finding is considered no longer valid

Corrective Action Taken:

The City re-evaluated its allocation plan and implemented changes for the fiscal year 2020 allocation to ensure costs are allocated in an equitable manner. Fire Department costs are no longer allocated to other departments and funds, including Sewer and Stormwater Funds.

As part of the year-end process, the City performs a true-up from estimated allocable expenditures, determined during budgeting, to actuals and retains support for allocation factors.

The City repaid the Sewer and Storm Drain for prior year fire department charges via a prior period adjustment on fiscal year 2020 financial statements. The General Fund repaid the Sewer Fund \$815,128 and Stormwater Fund \$275,205, for a total of \$1,090,333.

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 Sedro-Woolley, incorporated in 1898, serves approximately 12,000 citizens in Skagit County. The City provides services including police, fire, municipal court, building inspection, general administration, stormwater, wastewater treatment, solid waste disposal, legal administration, street construction and maintenance, parks and a cemetery.

An elected, seven-member Council and an independently elected Mayor govern the City. The Council appoints management to oversee the City's daily operations as well as its 79 full-time employees and 27 part-time and seasonal employees. For fiscal year 2021, the City operated on revenues of \$27,789,821.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Sedro-Woolley 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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