



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of North Bonneville

For the period January 1, 2019 through December 31, 2020

Published March 17, 2022

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

March 17, 2022

Mayor and City Council
City of North Bonneville
North Bonneville, 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 most of the areas we examined, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the City could make improvements. These recommendations are included with our report as a finding.

We also noted certain matters related to cash receipting and utility billing that we communicated to City management and the Mayor and City Council in a letter dated March 10, 2022. We appreciate the City's commitment to resolving those matters.

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 North Bonneville from January 1, 2019 through December 31, 2020.

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, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition – reviewing for indications of financial distress
- Budget compliance
- Annual report filing – timeliness and completeness

- Selected IT security policies, procedures, practices and controls protecting financial systems
- Cash receipting – completeness of deposits, voids and adjustments
- Utilities accounts receivable – billing and adjustments
- Accounts payable – general disbursements, credit cards, electronic funds transfers
- Payroll – gross wages
- Compliance with grant requirements
- Procurement – public works and purchases
- Compliance with public works – prevailing wages and retainage requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of North Bonneville January 1, 2019 through December 31, 2020

2020-001 The City did not monitor its financial activity or comply with state law, placing it at risk of not meeting its financial obligations or providing services at current levels.

Background

An elected City Council and Mayor govern the City, and a Chief Administrative Officer, who serves as the Clerk/Treasurer, is responsible for financial transactions. In fiscal year 2019 and 2020, the City had \$1.5 million and \$1.2 million in operating revenues, respectively. The City’s primary sources of revenue are property, sales and hotel/motel taxes and utility billings.

Description of Condition

Over the past several audits, we have communicated concerns with the City’s declining financial position. The table below shows the cash and investment balances at fiscal year-end since 2017 for the General Fund and Sewer Fund.

Fiscal Year	General Fund	Sewer Fund
2017	\$253,008	\$3,446
2018	208,331	-2,168
2019	160,736	52,829
2020	150,685	81,039
*As of November 2021	**533,342	140,073

*unaudited

**The City received a one-time revenue of approximately \$200,000 in August 2021 from dissolving and liquidating the North Bonneville Public Development Authority. The City has obligated these funds for park improvements.

While the City’s overall cash position has improved from prior years, the following concerns remain:

- The City is performing a cash and investment reconciliation, but it does not follow up on and resolve identified variances.

- The sewer infrastructure is aging, and the City anticipates needing to invest in new infrastructure in the near future. The City would like to finance some of these improvements through grants and state loans. However, grants might require matching contributions from the City, and loans require full repayment plus interest.
- Though the City raised utility rates during the audit period, it has not completed a comprehensive rate study to determine the full extent of funding needed to cover current and future costs of the sewer system.

Additionally, we identified concerns with the City’s budget compliance and fund accounting that affects the City’s ability to adequately monitor its financial position. The Council annually approves a budget determining the City’s legal spending limits. Under state law (RCW 35.33.121), spending should not exceed this limit without a Council-approved budget amendment. The City did not monitor its budget or available cash and investment balances when obligating expenditures to ensure the City was spending within its authorized appropriations and resources. The table below shows that the City overspent approved and amended budgets for three funds in 2019, totaling \$72,735, and one fund in 2020, totaling \$4,833.

Fund	2019	2020
General Fund	\$54,419	-
Street Fund	475	4,833
Water Fund	17,841	-

Additionally, the City reported negative cash and investment balances for the Street Fund of \$121,118 and \$144,919 in 2019 and 2020, respectively.

When expenditures in a fund exceed the amount of available resources, the City is using resources from other funds to continue operations without formally making an interfund transfer or establishing an interfund loan. The City can only make transfers from unrestricted sources, such as the General Fund. The Council must approve interfund loans by resolution or ordinance that includes a payment plan and sets a reasonable interest rate to be paid to the lending fund. If interfund loans are not repaid in a timely manner, it would represent an unallowable diversion of funds.

This issue was reported as a finding in the prior seven audits.

Cause of Condition

Although the City has worked to address the Sewer Fund’s financial position by raising rates, it has not developed a comprehensive financial plan. Further, City

officials were not aware they needed to monitor financial activity by fund to ensure the funds had available resources and budget to cover expenditures before payment. City officials also were not aware that funds could not have a negative ending cash balance.

Effect of Condition

Although the City has taken some steps to improve its cash position, its financial health remains a concern. Without a formal comprehensive plan to monitor financial condition and address future obligations, the City cannot ensure it can meet its financial obligations and maintain its operations at the present level. Further, the City did not comply with state law related to budget requirements, and it had expenditures that exceeded the Street Fund's available resources.

Recommendation

We again recommend the City's elected officials and management establish a formal, written comprehensive plan to address the City's financial condition and closely monitor financial operations to ensure it can meet its financial obligations. We also recommend the City follow state law related to budget compliance. Specifically, the City should obligate expenditures only when funds have the available budget and resources to pay for the transactions. Further, we recommend the City ensure it accounts for financial activity accurately within its general ledger, ensuring interfund loans or transfers are appropriately recorded to avoid negative cash and investment balances.

City's Response

The cash and investment reconciliation has been performed by this administration beginning our first budget season in 2018. We would like to clarify the wording from SAO in this report that the city began doing this due to SAO suggestion, but in actuality had been doing this prior to any suggestion from the SAO. Due to limited staffing and turnover, follow-up on variances have occurred, but not as timely as 2021 and forward.

The sewer infrastructure has slowly been upgraded and continues to do so. The city had a pump failure in the beginning of 2020 and was able to recover around \$13k from insurance for replacement. This year, another pump has been purchased for the main lift station. The city has worked and continues to work to build reserves to allow for match or partial funding. The CAO is working with MCEDD and the EDC to obtain grant or loan funding for the replacement of the oldest lift station.

The city is also planning to hold some of the NEU Fiscal Recovery Funds to allocate towards upcoming sewer infrastructure needs.

The city has been working with the RCAC to complete an updated water system plan and rate study. Engineering pre-planning starts in early March this year.

The city has budgeted expenditures within the estimated revenue amounts. Unfortunately, there were outstanding projects and bills from the street fund still lingering from the previous administration that we had to address, and were not expected when budgeting. The city did inform and pass budget amendments through council for the overages in 2019, 2020, and 2021. Ordinances #1121, 1132, and 1144 were passed without the instruction of the SAO.

The city will establish a formal, written comprehensive plan to address the financial condition and interfund transfer and loan processes.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank management 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 35.33.121 – Funds – Limitations on expenditures – Transfers



City of
NORTH BONNEVILLE

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of North Bonneville
 January 1, 2019 through December 31, 2020**

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

Audit Period: January 1, 2018 through December 31, 2018	Report Ref. No.: 1025245	Finding Ref. No.: 2018-001
Finding Caption: The City has not effectively monitored utility rates and other financial information, resulting in a continued decline in the Sewer Fund’s financial condition.		
Background: The City’s Sewer cash and investment balance was negative \$2,168 as of December 31, 2018. The City had not reconciled cash for over a year, was not consistently billing customer at approved rates or following up on past due accounts and had not performed a rate study to determine the funding need to support operations. The Sewer Fund’s financial condition put it at risk of not being able to meet operating demands and continue providing basic services.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The City has arranged to begin a water rate study in January of 2022 to allow for possible CBDG funding. Prior to that, we have raised the rates annually each March, changed allocations to accurately reflect monies belonging to the Water and Sewer funds, designated all new water and sewer hook-up fees to go directly to the reserves accounts, and began proper cash reconciliations for a more accurate reflection of the funds, and completed an audit of each utility account to ensure rates and categories were entered correctly. I would consider this fully corrected, with the exception of the completed rate study.</i>		

INFORMATION ABOUT THE CITY

The City of North Bonneville serves approximately 1,011 citizens in Skamania County. It is administered by a mayor-council form of government with five elected Council members and an independently elected Mayor. The City has about 10 employees.

In fiscal year 2020 and 2019, the City had \$1.2 million and \$1.5 million in operating revenues, respectively. The City provides an array of services including water, sewer, fire control, parks and recreation, and planning and building services.

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 North Bonneville 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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