

SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET

ITEM NO: Presentation

DATE: September 27, 2007

SUBJECT: 2006 Audit Report

CONTACT PERSON: Deborah Knight, City Administrator

ISSUE:

The State Auditor's Office has completed its audit for the period of January 1, 2006 to December 31, 2006. This presentation is an opportunity for staff from the Auditor's Office to review their findings with the City Council.

SUMMARY:

In planning and performing their financial and accountability audit of the City of Sultan for the period January 1, 2006, through December 31, 2006, the Auditors noted some areas in which the City's internal controls over the financial statement preparation could be improved. While the items are not significant enough at this time to include in the reports, the Auditors believe their recommendations will assist the City in improving the City's internal control process.

The Auditors also noted control deficiencies in the internal controls to ensure spending was limited to available resources and to ensure inter-fund loans are repaid in accordance with payment terms. The attached management letter provides additional details.

City staff have already discussed these comments with the Auditors and are in the process of implementing the suggestions for improvements.

FISCAL IMPACT:

The Auditors anticipated taking approximately 307 hours at an hourly rate of \$78.50; a total cost of approximately \$24,100 plus travel costs. The audit was completed within budget.

RECOMMENDED ACTION:

Receive the information provided by the Auditor's Office and ask follow-up questions as needed.



Washington State Auditor
Brian Sonntag

Mayor and City Council
City of Sultan
319 Main St, Suite 200
Sultan, WA 98294

Management Letter

In planning and performing our accountability audit of the City of Sultan for the period January 1, 2006, through December 31, 2006, we noted some areas in which the City's internal controls could be improved. While this item is not significant enough at this time to include in our reports, we believe our recommendations will assist you in improving the City's internal control process.

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 officials and personnel. We would be pleased to discuss them in further detail at your convenience. If you have any questions, please contact Sadie Armijo at 425-257-2137.

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,

Sadie Armijo, Audit Manager

Attachment

Management Letter

City of Sultan

January 1, 2006 through December 31, 2006

During our audit we noted control deficiencies in the internal controls to ensure spending was limited to available resources and to ensure inter-fund loans are repaid in accordance with payment terms.

We reported findings in prior audits regarding deficit fund balances and one fund benefiting from another. In the current audit, we again found a deficit fund balance and inter-fund loans that were not repaid in accordance with payment terms.

The Street Construction Fund had a deficit fund balance of \$269,492. The City did not have adequate internal controls to ensure spending was limited to available resources.

Inter-fund loans were not repaid in accordance with payment terms. Inter-fund loans repayments should have totaled \$74,000, additionally, past due amounts that should have been paid in 2005 totaled \$32,000. Thus, the total amount due in 2006 was \$106,000.

The City made payments totaling \$267,000. A payment of \$246,000 from the Capital Improvement Project Fund to the Cumulative Reserve Utility Fund paid off the principal of the loan, however, the interest due was not paid in full. We noted the City made a principal payment of \$21,000 from the General Fund to the Cumulative Reserve Utility Fund, leaving a remaining unpaid balance of \$31,000.

Further, interest payments between funds should have totaled \$39,820, but were \$12,957.

We recommend that the City establish and follow an internal control process to ensure spending is limited to available resources and inter-fund loans payments are made in compliance with resolution and promissory notes establishing repayment terms.