



# Washington State Auditor's Office

Government that works for citizens

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## Exit Conference: Clallam County

### About our Office

The Washington State Auditor's Office's vision is government that works for citizens. Our goal is for government that works better, costs less and earns greater public trust.

The purpose of this meeting is to share our audit results and draft reporting. We value and appreciate your participation.

### Audit Highlights

- Six years without a finding.

### Audit Scope

We performed the following audits for your County:

- **Accountability audit for 2015** See draft report.
- **Financial statement audit for 2015** See draft report.
- **Federal grant compliance audit for 2015** See draft report.

### Financial Statement required communications

In relation to our report, we would like to bring to your attention:

- Uncorrected misstatements in the audited financial statements are summarized on the attached schedule. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements.

There were no material misstatements in the financial statements corrected by management during the audit.

### Status of Prior Findings and Management Letter items

Prior Findings/Management Letters	Resolved	Unresolved
Parks Department cash receipting	X	

## **Recommendations not included in the Audit Reports**

### **Management Letters**

Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. Management letters are referenced, but not included, in the audit report. We noted certain matters that we are communicating in a letter to management related to cost allocations, Clallam Bay/Seki sewer procedures.

### **Exit Items**

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

## **Concluding Comments**

### **Report Publication**

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/saoportal/Login.aspx>

### **Audit Cost**

At the entrance conference, we estimated the cost of the audit to be \$68,000, plus travel expenditures and actual audit costs will approximate \$58,000, plus travel expenditures.

### **Audit Survey**

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

### **Your Next Scheduled Audit**

Your next audit is scheduled to be conducted in June 2017 and will cover the following general areas:

- Accountability for Public Resources
- Financial Statement
- Federal Programs

The estimated cost for the next audit based on current rates is \$68,000, plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

## Summary of Uncorrected Items

Statement / Schedule	Description
C5	We determined the County overreported County Timber Tax revenues on the C5 statement. These funds were reported in Fund 690 and again in the Fund which ultimately received them.



## Washington State Auditor's Office

September 26, 2016

Board of Commissioners  
Clallam County  
223 E. 4<sup>th</sup> Street

Dear Commissioner Members:

Our Office was contacted by a citizen with concerns regarding Clallam County. We examined these concerns and would like to share the results with you.

We determined the Clallam County Board of Commissioners followed county policy when it awarded the Opportunity Fund grants to the City of Port Angeles and Port of Port Angeles. The use of a "budget modification" to transfer funds within a department without increasing appropriations was allowable.

Counties are also required to comply with RCW 36.40.100 when amending the budget. We advise counties to check with their legal counsel to determine if the budget transfer within the department complies with the requirements set forth in RCW 36.40.100. According to the Clallam County Prosecuting Attorney, "RCW 36.40 does not purport to exhaustively describe the available methods by which a local legislative body may amend its budget, it follows that counties may adopt their own laws and regulations on the subject."

In addition, we determined the County was not required to have written contracts beyond those required by the Opportunity Fund project proposal process. Even so, in an effort to create transparency the County ultimately signed a Memorandum of Understanding with the City and Port.

If you have any questions about our work in this area, please contact Audit Manager Carol Ehlinger at 360-895-6133.

Sincerely,

Carol Ehlinger  
Audit Manager



## Washington State Auditor's Office

September 26, 2016

Board of Commissioners  
Clallam County  
223 E. 4<sup>th</sup> Street

Dear Commissioner Members:

Our Office was contacted by a citizen with (a) concern(s) regarding Clallam County. We examined these concerns and would like to share the results with you.

We confirmed the County provided assistance payments to veterans in excess of amounts allowable under county policy, and the former veterans' coordinator did not retain adequate documentation supporting income verifications. In addition, we found the current veterans' coordinator is not a county employee as required by county policy. We recommended the County provide assistance payments in accordance with county policy, and continue to retain documentation supporting income verifications. We further recommended the County change its current practices or update its policy to ensure the fund is operated in accordance with county policy.

If you have any questions about our work in this area, please contact Audit Manager Carol Ehlinger at 360-895-6133.

Sincerely,

Carol Ehlinger  
Audit Manager



## Washington State Auditor's Office

September 26, 2016

Board of Commissioners  
Clallam County  
Port Angeles, Washington

### Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the Clallam County from January 1, 2015 through December 31, 2015. We believe our recommendations will assist you in improving the County's internal controls and compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to County officials and personnel. If you have any further questions, please contact me at 360-895-6133.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

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,

Carol Ehlinger, Audit Manager

Attachment

Management Letter

Clallam County

January 1, 2015 through December 31, 2015

**Clallam Bay/Sekiu Sewer Service:**

We reviewed the County's policies and procedures regarding Clallam Bay/Sekiu sewer service rates and billings and identified the following exceptions:

- Liens are not placed on delinquent sewer service accounts as required by RCW 36.94.150. We reviewed an accounts receivable aging report and identified thirty delinquent sewer service accounts over 120 days past due totaling \$22,855.
- There are no policies or procedures in place indicating what type of adjustments to customer accounts are allowable.
- The County could not provide supporting documentation showing adjustments to customer accounts were reviewed by an individual independent of the adjustment process.
- Sewer rates are not sufficient to cover costs of all operations, including maintenance, capital and debt service requirements, reserves, and any other cost deemed necessary as required by RCW 36.94.140 and County General Policy 500.73.

We recommend the County:

- Apply liens on properties with delinquent sewer service accounts as required by RCW 36.94.150.
- Develop policies and procedures indicating what type of adjustments to customer accounts are allowable.
- Retain supporting documentation showing an individual independent of the service fee adjustment process reviews adjustments to ensure they are reasonable and accurate.
- Clallam Bay/Sekiu Sewer Service establish a rate structure sufficient to cover operations including maintenance, capital and debt service requirements, reserves, and any other cost deemed necessary.

**Cost Allocations**

Counties incur costs for central services such as administration, human resources, payroll and purchasing that are shared among funds that benefit from the services. Counties may adopt a fair and equitable method of distributing these shared costs among funds. However, state law prohibits resources restricted for certain uses such as utilities from benefitting other funds without receiving value. Specifically, state law dictates when one fund is charging another, the fund being charged may only pay for the actual costs of the services (RCW 43.09.210).

In fiscal year 2015, the County allocated \$1,600,673 of administrative costs to various funds, including restricted funds.

The County was unable to demonstrate the allocations were fair and reasonable. Specifically, we found:

- Costs were allocated based on either direct salaries or direct costs in the benefitting fund, regardless of the type of cost being allocated. Different allocation bases should be used for different types of costs, in order to ensure costs are allocated equitably based on benefits received. For example, an appropriate allocation base for information technology costs would be number of computers, while an appropriate allocation base for accounting services would be number of transactions processed.
- The County allocated all or a portion of 17 employee salaries based on estimates of percent of time spent on central services. The County was unable to provide time studies or other documentation supporting the percentage of time being allocated.
- The allocation percentages were applied to budgeted rather than actual expenditures, with the exception of the public works funds.

Some of these issues were noted in the prior year audit and remain unresolved. We continue to recommend the County ensure:

- Consistent and equitable bases are used to allocate costs to each fund
- Costs being allocated are adequately supported
- Allocations are based on actual rather than budgeted expenditures