CITY OF HOQUIAM
Grays Harbor County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Revenue From Timber Sales Should Remain In Utility Fund

In 1993, the City of Hoquiam sold timber from Utility Fund property for the purpose of benefiting the Current Expense Fund. At year end 1993, $809,855 of the Utility Fund's cash was declared "surplus" and transferred into the Current Expense Fund. The city relied on RCW 35.37.020 to permit this diversion of cash.

RCW 35.37.020 states that any deficit in the operation and maintenance of a Utility Fund shall be covered by the Current Expense Fund. It further states that:

> Any surplus in the waterworks fund, lighting fund, cemetery fund, or other like funds at the end of the fiscal year shall be paid into the current expense fund . . . .

However, by conducting the timber sales in 1993, the city artificially caused a year-end surplus when one would not have normally existed.

Furthermore, RCW 43.09.210 provides that no fund:

> . . . shall benefit in any financial manner whatever by an appropriation . . . made for the support of another.

The timber sales in question were conducted for the purpose of supplying revenues to the Current Expense Fund.

Additionally the Hoquiam Watershed Management Plan, as currently adopted by City Resolution No. 85-41, states that:

> . . . The proceeds from the sale of the watershed forest products shall be deposited in the Watershed Reserve and the expenditure and use of these funds shall be restricted to the following purposes only:
>
> (1) The operation and maintenance of Watershed lands, city reservoirs, and city dams to assure potable water.
>
> (2) Capital expenditures for the water and sewer departments to ensure service reliability and efficiency.
>
> (3) Studies or plans for capital improvement projects in water and sewer departments.
>
> (4) Temporary loans to the current Water and Sewer Fund if temporary

cash flow problems occur subject to repayment without interest expeditiously.

(5) All bond costs of the water and sewer departments.

The proceeds from the 1993 logging activity violated this legislation. Resolution No. 85-41 required all timber sale revenues to be deposited into a restricted reserve fund. This reserve is separate from the operating fund into which the moneys in question were deposited, declared surplus, and subsequently transferred to the Current Expense Fund.

By artificially causing a surplus to exist and by diverting the proceeds to the Current Expense Fund, the city violated state statute and local legislation. In addition, the revenues which these trees represented is now unavailable for use by the Utility Fund should the need arise.

The city's desire to divert these funds were threefold. First the city completed approximately $400,000 in structural repairs at the police station. Secondly, the diversion permitted the Current Expense Fund to end 1993 with a positive fund balance and third, the moneys were used to balance the 1994 Current Expense budget.

We recommend that the city return any unspent moneys to the Utility Fund, develop a schedule of repayment for that portion of the diverted funds that have been expended, and refrain from creating timber-cut surpluses in the future.

2. Internal Controls Over Fixed Assets Should Be Improved

In prior audits, we have recommended that the city develop a comprehensive system of accounting for general fixed assets and improve its detailed fixed asset records. City officials, while beginning the process, have not yet fully developed a system to provide adequate control over general fixed assets.

Fixed assets consist of land, buildings, and equipment. The city uses a combination of manual and automated records to account for various fixed asset transactions throughout the audit year. These records have not yet been completely integrated into the city's general ledger accounting system. At year end, an adjusting journal entry is made to record purchases during the year. The city does not have an established uniform fixed asset capitalization policy nor has it established a requirement for annual departmental physical inventories. Furthermore, not all assets have been physically tagged with city identification and property numbers.

Both the *Budgeting, Accounting and Reporting System* (BARS) manual, as promulgated by the State Auditor's Office and prescribed for Washington cities and generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board, require accounting for and reporting of fixed assets. Without adequate detail supporting records, the city lacks the ability to adequately safeguard and report these assets.

The inadequate general fixed asset accounting system is partially attributed to insufficient funding and staffing by the city in fiscal year 1993.

We continue to recommend that accounting controls over fixed assets be improved. City officials should continue with the progress made during the last few years and:

a. Establish a uniform capitalization policy for fixed assets purchased by the city.

b. Complete their comprehensive physical inventory of fixed assets, including land, building, and improvements. During the physical inventory, or at some other date, the city should properly identify assets with city identification and property numbers.

c. Prepare and accumulate detail information on individual assets by historical cost and location in a general fixed asset subsidiary ledger. Ideally, all additions and retirements of general fixed assets should be recorded in the subsidiary ledger as they occur. Additionally, the subsidiary ledger should be reconciled to the general ledger control account in a timely manner.