

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**City of Bremerton**  
**Kitsap County**

Report Date  
**October 29, 2010**

**Report No. 1004902**

Issue Date  
**January 18, 2011**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

January 18, 2011

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

***Report on Accountability***

We appreciate the opportunity to work in cooperation with your City to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the City of Bremerton's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Kitsap County  
October 29, 2010

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# Audit Summary

City of Bremerton  
Kitsap County  
October 29, 2010

## **ABOUT THE AUDIT**

This report contains the results of our independent accountability audit of the City of Bremerton from January 1, 2009 through December 31, 2009.

We evaluated internal controls and performed audit procedures on the activities of the City. We also determined whether the City complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Cash receipting
- Contracts/agreements
- Insurance/risk management
- Follow up on prior issues
- Cost allocation to utilities
- Change orders
- Disbursements/expenditures
- Payroll/personnel
- Open public meetings
- Procurement (bidding)
- Fuel usage/monitoring

## **RESULTS**

In most areas, the City complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- City of Bremerton's Municipal Golf Course's cash handling controls are inadequate.
- The City did not comply with competitive bid laws when it performed change orders outside the scope of the original project.

We also noted certain matters that we communicated to City management. We appreciate the City's commitment to resolving those matters.

## **Related Reports**

**City of Bremerton  
Kitsap County  
October 29, 2010**

### ***FINANCIAL***

Our opinion on the City's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the City's financial statements.

### ***FEDERAL GRANT PROGRAMS***

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report.

# Description of the City

City of Bremerton  
Kitsap County  
October 29, 2010

## ***ABOUT THE CITY***

The City of Bremerton serves more than 35,900 citizens in Kitsap County. The City provides an array of services including water, sewer, police, Municipal Court, fire, emergency medical, street maintenance, parks and recreation, community service programs, planning and economic development. It also operates its own golf course and cemetery.

An elected, nine-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 approximately 367 employees. For 2009, the City operated on a budget of approximately \$146 million.

## ***ELECTED OFFICIALS***

These officials served during the audit period:

Mayor

Cary Bozeman (through June 2009)  
Patty Lent (effective November 2009)

City Council:

Cecil McConnell, Mayor Pro-Tem  
Will Maupin  
Nick Wofford  
Diane Robinson  
Brad Gehring  
Adam Brockus  
Mike Shepherd  
Carol Arends  
Roy Runyon

## ***APPOINTED OFFICIALS***

City Attorney  
Director of Public Works  
Fire Chief  
Police Chief  
Director of Financial Services  
Director of Community Development  
Director of Park and Recreation  
Human Resource Manager  
City Engineer  
City Auditor

Roger Lubovich  
Phil Williams  
Al Duke  
Craig Rodgers  
Andy Parks  
Andrea Spencer  
Wyn Birkenthal  
Carol Conley  
Mike Mecham  
Gary Nystul

## ***CITY CONTACT INFORMATION***

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Phone: (360) 473-5210

Website: [www.ci.bremerton.wa.us](http://www.ci.bremerton.wa.us)

## ***AUDIT HISTORY***

We audit the City every year. The 2003 audit reported a finding related to the late submission of financial statements and another finding for violating bid laws. No findings were reported for the 2004, 2005, 2006 and 2007 audits. In 2008, we reported a finding regarding cash receipting controls at the municipal golf course.

# Schedule of Audit Findings and Responses

City of Bremerton  
Kitsap County  
October 29, 2010

1. **The City of Bremerton's Gold Mountain Golf Club controls over cash-receipting are inadequate.**

## Background

The City owns Gold Mountain Golf Club. The Club consists of two 18-hole golf courses, a driving range, a pro shop, restaurant, meeting rooms and other related facilities. Operating revenue totaled \$3.3 million in 2009.

The City has contracted for the Club's management. The agreement with the contractor states it must ensure money will be deposited in the form it is collected (i.e. cash, check) and the contractor will maintain a clear audit trail. It further states the contractor will comply with the City's accounting procedures. Sales are receipted at the Club's restaurant and pro shop.

## Description of Condition

In 2008, we reported an audit finding related to cash-receipting at the restaurant and pro shop. During the current audit, we followed up to see if the condition had been resolved. We performed surprise cash counts and found both cash registers to be only pennies off. This was an improvement over the prior year condition. However, additional review of cash-receipting activities during July 2010 found overages and shortages on 15 of the 31 days reviewed. Daily overages were as much as \$2,388.27 and shortages as much as \$441.48. The net overage for the month was \$3,648.08.

## Cause of Condition

The contractor is not familiar with effective internal controls over cash-receipting. For example, it allows multiple cashiers to use a cash register, cashiers do not count starting cash and do not balance cash in the drawer to system reports at the end of the shift. The City monitors monthly golf course revenue for reasonableness, but does not enforce the part of the contract that relates to the required accounting procedures.

## Effect of Condition

These weaknesses increase the risk that a loss or misappropriation of City revenue could occur and go undetected due to the unreliability of the information in the cash-receipting processes. In addition, the City may not be able to assign responsibility should a loss occur.

## **Recommendation**

We recommend the City enforce contract provisions requiring the contractor to use City accounting procedures and require it to establish and follow internal controls including having only one cashier use each register, count starting cash and balance to system reports at the end of each shift.

We also recommend the contractor and City monitor daily overages and shortages to ensure money is receipted properly and deposited intact.

## **City's Response**

*The City acknowledges that controls over cash receipting at Gold Mountain Golf Course continue to be inadequate. In response to the prior year finding, the City has continued to meet with the contractor to recommend improvements to the cash receipting operation. In addition, the City Auditor was asked to review receipting processes at the golf course and made several recommendations that resulted in some improvement. Future plans to replace the outdated point of sale system in early 2011 will also help to eliminate some of the issues that currently exist. The City's new Financial Services Director has made it a top priority to resolve the control over cash receipting in the upcoming year.*

## **Auditor's Remarks**

We appreciate the steps the City has made to address this issue. We will follow up on this issue during the next audit.

## **Applicable Laws and Regulations**

RCW 43.09.200, Local government accounting — Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

# Schedule of Audit Findings and Responses

City of Bremerton  
Kitsap County  
October 29, 2010

2. **The City did not comply with competitive bid laws when it performed change orders outside the scope of the original project.**

## Description of Condition

The City awarded a \$2,350,000 public works contract for a construction project at Memorial Plaza. We identified 19 change orders totaling \$584,970 that were not submitted to City Council for approval in accordance with City code. The majority of these costs related to the addition of a restroom at Memorial Plaza. We found this addition was outside the original scope of the project and should have been bid separately.

We also identified a \$135,000 purchase of a barrier wall that was declared a sole-source purchase by the City's Project Manager. City code allows for bid requirements to be waived when the material or supplies are clearly and legitimately limited to a sole source of supply. However, the Council must approve contracts that exceed \$25,000. We did not find evidence of Council approval for this purchase.

## Cause of Condition

Employees of the City's Community Development Department stated they did not believe the Memorial Plaza restroom addition was outside the scope of the original contract. Department employees stated they also believed they could achieve cost savings by using the same vendor who was already working on the Memorial Plaza project.

The Project Manager misinterpreted City code on its purchase of the barrier wall. While City code allows for sole-source purchases, approval from the City Council must be obtained for contracts that exceed \$25,000.

## Effect of Condition

The City cannot demonstrate it received the lowest price or that all vendors were provided equal access and opportunity to bid.

## Recommendation

We recommend the City establish procedures to ensure it closely monitors projects for adherence to the project scope. In addition, we recommend the City provide training to employees to ensure they are knowledgeable of state laws and the City's policies and procedures required for ensuring compliance with bid requirements.

## City's Response

*The City acknowledges noncompliance with bid laws in these instances. Current procedures for the processing of change orders will be reviewed and updated where weaknesses are noted. In addition, employee training on City purchasing policies will be updated to emphasize bidding requirements contained in state laws and City policies. The City's new Financial Services Director has made a review of existing policies and communication of them to staff a top priority in the coming year.*

## Auditor's Remarks

We appreciate the steps the City has made to address this issue. We will follow up on this issue during the next audit.

## Applicable Laws and Regulations

2.76.110 Amendments and Change Orders – Approval, states:

a) Amendments or change orders to contracts requiring City Council approval under this chapter may be administratively approved by the Mayor if the changes are:

- 1.) Within the scope of the project
- 2.) Consistent with an initial bid process, if any;
- 3.) Executed in writing; and
- 4.) An increase of the contract award amount (CAA) as follows:

Contract Award greater than \$500,000 (percentage of increase in CAA (the greater of) 10% or minimum Limits Minimum. \$100,000 Maximum. \$200,000

b) The value of all change orders will be aggregated. When any single change order, or combined change orders on the same project or single purchase exceeds the value limit, the change must be approved by the City Council, except in the following instances:

- 1.) On service contracts used to accomplish an ongoing City program as opposed to completing a short-term project or purchase, change order rules, including the aggregate rule, shall be applied on an annual basis.
- 2.) Where the size of the contract and the exhausting of change order authority make further change order authorization impractical, the City Council may, upon recommendation of the Mayor, extend the aggregate limits of subsection (a)(4) of this section for specific projects.

c) A work change directive may be used to:

- 1.) Authorize and direct work that will result in an increase in contract price within the administrative authority of the Mayor as provided in subsection (a) of this section for specific contracts.

Work change directives that affect the contract price shall be incorporated into a change order.

2.) Authorize and direct work that will result in an increase in contract price in excess of the administrative authority of the Mayor as provided in subsection (a) of this section:

(i.) Where unforeseen conditions necessitate an immediate change to avoid a contractor's claim against the City for delays; or

(ii) Due to an emergency as defined in BMC 2.76.030(f). In such circumstances, the work change directive shall be incorporated into a change order and presented to the City Council at its next regularly scheduled public meeting, subject to scheduling. (Ord. 4934 3 (part) 2005)

RCW 39.04.020, Plans and specifications — Estimates — Publication — Emergencies, states:

Whenever the state or any municipality shall determine that any public work is necessary to be done, it shall cause plans, specifications, or both thereof and an estimate of the cost of such work to be made and filed in the office of the director, supervisor, commissioner, trustee, board, or agency having by law the authority to require such work to be done. The plans, specifications, and estimates of cost shall be approved by the director, supervisor, commissioner, trustee, board, or agency and the original draft or a certified copy filed in such office before further action is taken.

If the state or such municipality shall determine that it is necessary or advisable that such work shall be executed by any means or method other than by contract or by a small works roster process, and it shall appear by such estimate that the probable cost of executing such work will exceed the sum of twenty-five thousand dollars, then the state or such municipality shall at least fifteen days before beginning work cause such estimate, together with a description of the work, to be published at least once in a legal newspaper of general circulation published in or as near as possible to that part of the county in which such work is to be done. When any emergency shall require the immediate execution of such public work, upon a finding of the existence of such emergency by the authority having power to direct such public work to be done and duly entered of record, publication of description and estimate may be made within seven days after the commencement of the work.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

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