



Office of the Washington State Auditor

Pat McCarthy

2015 Accountability Exit Conference and 2016 Financial, Federal and Accountability Entrance Conference

City of Tacoma
Government Performance and Finance Committee
February 15, 2017

**Joanne Klein, Audit Manager
Linda Mastin, Assistant Audit Manager**

Today's presentation

- Results from the 2015 accountability audit
- Notification for the upcoming 2016 financial, federal and accountability audit



Audit highlights

- We appreciate City staff's responsiveness and professionalism
- Thank you to the staff in the City's finance and other departments for working with us and sharing their knowledge about the City:
 - Andy Cherullo
 - Susan Calderon
 - Linda Parks
 - Su Yi
 - Susan Calhoun
 - Michael San Soucie
 - Jeff Capell
 - Ricardo Noguera
 - Patsy Best
 - Al Raymond
 - JR Smith

2015 accountability audit report

- Period covered: January 1 – December 31, 2015
- Report will be issued later this month
- We evaluated internal controls and performed audit procedures on City activities
- We assessed whether the City complied with state laws and regulations, and with its own policies and procedures

2015 accountability audit areas

Departments audited

- Permit services
- Tacoma Public Library (including citizen concerns)
- HR special revenue fund

Legal compliance areas audited

- Conflicts of interest
- Purchase of Old City Hall
- Cash counts

- Safeguarding of small and attractive assets
- Travel and relocation expenses
- Accounting/financial reporting
- Open public meeting minutes

Additional citizen concerns (Rail line sale, Click allocation)

2015 departments audited

- **Permit services:** Cash receipting controls were adequate. Permit revenue was being properly receipted and permits were being tracked.
- **Tacoma Public Library:** Cash receipting, cash handling and adjustments to fines and fees were satisfactory. Procurement followed Library policy. Citizen concern areas found no reportable issues.
- **Human resources special revenue fund 1500:** We determined the fund was properly classified and expenditures were valid.

2015 legal compliance areas audited

- **Conflict of interest:** We noted no conflict of interest or ethics law violations.
- **Purchases:** The purchase of Old City Hall followed state and local purchasing guidelines.
- **Cash counts:** We determined all funds received were properly receipted and accounted for at the selected locations in the Treasury and Library.
- **Safeguarding small and attractive assets:**
 - ❑ **Police Department:** We tested small and attractive assets and found they were properly tracked and safeguarded.

Legal compliance areas, continued

- **Travel and relocation expenses:** Relocation, temporary housing and travel expenses tested comply with City policy. Travel expenses were appropriate for a public purpose.

Additional citizen concerns

- **Rail line sale:** The City sold a 35-mile section of rail and the property known as Western Junction facility, as state law and the City Charter allowed.
- **Click lease, accounting and cost allocation:** Lease of the Click network did not go through. Cost allocation plan and accounting in general was audited previously by Moss Adams with no exceptions noted.

2015 Accountability audit results

In the areas we examined, we found:

- The City's internal controls were adequate to safeguard public assets
- The City complied with state laws and regulations and its own policies and procedures

Related reports

- **Financial**

- We evaluated the City's financial statements and compliance with federal grant program requirements in a separate report.

- **Federal grant programs**

- We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal programs.

- **Energy Independence Act evaluation**

- Tacoma Power complied, in all material respects, with the Act's renewable and conservation energy requirements.

2016 audit scope

Audit period for all audit types: January 1 – December 31, 2016

- Financial statements audit
 - ▣ Comprehensive Annual Financial Report (CAFR) letter
- Federal audit
- Accountability audit

Our engagement letter documents the responsibilities of the City and our Office for conducting and performing the audit.

It identifies the cost of the audit, estimated timeline for completion and expected communications.

2016 financial statements audit

Purpose: To provide an opinion on whether your financial statements are presented fairly, in all material respects, in accordance with the applicable reporting framework.

- ❑ Does not attempt to confirm the accuracy of every amount
 - ❑ Does search for errors large enough to affect the conclusions and decisions of a financial statement user
- The audits of Tacoma Public Utilities (Power, Water, Rail) and Environmental Services Utilities (Sewer and Solid Waste) is performed by Moss Adams. Our opinion on the City's comprehensive financial statements will note the financial statements of these utilities were audited separately.

2016 federal grant compliance audit

An audit is required by the federal Single Audit Act of 1984 when a local government spends more than a threshold amount in federal financial assistance annually, \$750,000.

- ❑ **Objectives:** To determine whether the City complies with federal requirements that could have a direct and material effect on a major federal program and to report on noncompliance.
- ❑ Federal requirements stipulate that these reports, along with the Data Collection Form, be submitted to the Federal Audit Clearinghouse within 30 days after you receive them or nine months after the end of the audit period, whichever is earlier. We will work with you to be sure they are submitted in a timely way.

2016 accountability audit

Objective: Assess the use and safeguarding of public resources to ensure the City protects them from misuse and misappropriation.

- We will evaluate whether there is reasonable assurance for adherence to applicable state laws and regulations and City policies and procedures.

2016 audit timeline

Auditor starts financial planning: February 2017

Audit cash internal controls and balance: starts February 2017, wrapped up for Moss Adams in March 2017

Audit internal controls for other major balances: starts March 2017

Complete and submit your Schedule of Expenditures of Financial Awards: April 2017, so we can conduct federal audit work

Complete and submit your fund statements: April 2017, so we can conduct substantive audit work

Complete and submit your financial statements: By May 1, 2017

Auditor issues CAFR letter report: By June 20, 2017

Auditor issues federal and financial audit report: By August 30, 2017

Reporting levels for audit recommendations

- **Exit items**

- Exit items address control deficiencies or non-compliance with laws or regulations that have an insignificant or immaterial effect, or errors with an immaterial effect on the financial statements. These issues are informally communicated to management.

- **Management letters**

- Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other issues with significance to the audit objectives. Management letters are referenced, but not included, in the audit report.

- **Findings**

- Findings formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations or policies. You will be given the opportunity to respond to a finding and this response will be published in the audit report.

Other information

- Our Office is committed to protecting your confidential or sensitive information. Please notify us when you give us any documents, records, files or data containing information that is covered by confidentiality or privacy laws.
- Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.
- Local governments are required to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. These notifications can be made on our website at <http://portal.sao.wa.gov/saoportal/public.aspx/LossReport>.

Expected communications

- During the course of the audit, we will communicate with Susan Calderon, CPA, Assistant Finance Director/Controller, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.
- Please let us know if, during the audit, any events or concerns come to your attention of which we should be aware.
- At the conclusion of the audit, we will summarize the results at the exit conference.

New accounting standards

- GASB Statement No. 72 - *Fair Value Measurement and Application*, effective after June 15, 2015.
- GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, effective after June 15, 2015.
- GASB Statement No. 74 – *Financial Reporting for Post Employment Benefit Plans other than Pension Plans*, effective after June 15, 2016
- GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, effective after June 15, 2017
- GASB Statement No. 76 – *The Hierarchy of GAAP for Local Governments*, effective after June 15, 2015.
- GASB Statement No. 77 – *Tax Abatement Disclosures*, effective after December 15, 2015.
- GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective after December 15, 2015
- GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*, Effective after December 15, 2015
- *GASB Statement No. 80 – Blending Requirements for Certain Component Units*, effective after June 15, 2016

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