



Office of the Washington State Auditor
Pat McCarthy

Exit Conference

City of Tacoma

October 15, 2019

Today's presentation

- About our Office
- 2017 Accountability audit exit
- 2018 Financial & Single audit exit
- 2018 Accountability audit entrance
- Concluding comments
- Contacts

SAO Executive Management



Pat McCarthy
State Auditor



Kelly Collins, Director of Local Audit – Kelly has been with the Washington State Auditor's Office since 1992. In her role she oversees the audit teams which perform the audits for over 2,200 local governments. She serves on the Washington Finance Officers Association Board and is a member of the Washington Society of Certified Public Accountants' Government Auditing and Accounting Committee.



Mark Rapozo, CPA, Deputy Director of Local Audit – Mark has been with the Washington State Auditor's Office since 1983. In his role as Assistant Director he assists with the statewide oversight and management of all the audits for local government. He also served as the chairman of the Local Records Committee of the Washington State Archives for 10 years.

Local Audit Team Contacts



Joanne Klein, Audit Manager – In her role as Manager, Joanne manages the Tacoma Team, which performs financial, single and accountability audit work for local governments in the Pierce and South King County areas. Joanne has been with the State Auditor's Office since 1999. She served as an Assistant Audit Manager for ten years before becoming the Audit Manager in 2015. She also serves as the office's school specialist and provides training with Washington Association of School Business Officials.



Linda Mastin, Assistant Audit Manager – Linda has been with the Washington State Auditor's Office since 2004. During her employment with the Office, Linda has participated in and supervised a variety of different audits including cities, counties, water districts, fire districts, and school districts. Linda serves as the Agency's Court Specialists.



Leah Hafterson, Audit Lead – Leah has been with the Washington State Auditor's Office since 2014. She is a Certified Fraud Examiner, serves as one of the Team's fraud specialists, and is one of the Agency's Bid Law Specialists. Leah has participated in and led a variety of different audits including cities, counties, fire districts, housing authorities, park districts, transportation districts, and school districts. Her previous work experience in accounting includes the construction equipment rental industry, public relations and marketing industry, and non-profit organizations. .

- The Office of the Washington State Auditor's mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds and develop strategies that make governments more efficient and effective.
- Our vision is increased trust in government.
- The purpose of this meeting is to share our audit results and report.
- We value and appreciate your participation.



About Our Office

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Audit Scope

We performed the following audits for the City:

- **Accountability audit for 2017** – report available
- **Financial statement audit/Comprehensive Annual Financial Report for 2018** - report available.
- **Federal grant compliance audit for 2018** - report available.

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Audit Scope

Audit	Description	Audit Period
Accountability	To determine if controls are in place to protect public resources and if the City is in compliance with laws and regulations relating to financial matters.	January 2017-December 2017
Financial Statement/ Comprehensive Annual Financial Report	To provide an opinion on whether the City's financial statements are presented fairly, in all material respects, in accordance with Government Auditing Standards.	January 2018-December 2018
Federal Grant Compliance	To determine whether there is compliance with federal requirements that could have a direct and material effect on a major federal program and to report on noncompliance.	January 2018-December 2018

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Accountability Audit Report 2017



The report includes the following:

- In the areas we audited the City operations complied with applicable requirements and provided adequate safeguarding of public resources.
- In the areas we audited the City complied with state laws and regulations and its own policies and procedures in the areas we examined.

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Accountability Audit Executive Summary

City of Tacoma Accountability Report

“This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.”

Audit Highlight: Paula Barry and Susan Calderon provided valuable assistance during our audit, as our main points of contact. We appreciate their availability and willingness to address questions timely.

AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

About the audit

This report contains the results of our independent accountability audit of the City of Tacoma from January 1, 2017 through December 31, 2017.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the year ended December 31, 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Procurement and fuel card purchases: gained an understanding of internal controls over card purchases and performed testing.
- Payroll: gained an understanding of internal controls over overtime and tested overtime charges.
- Safeguarding of small and attractive assets: gained an understanding of internal controls over small and attractive assets and performed testing at various departments.
- Procurement – public works and Tacoma Public Utilities for purchases, prevailing wages, professional services, sole source, extensions, and change orders.
- Cash receipting: gained an understanding of internal controls, reviewed cash receipting and performed cash counts at various receipting locations.
- General disbursements: gained an understanding of controls over payments and tested selected disbursements.
- Petty cash: gained an understanding of controls over petty cash, reviewed funds for disbursements, receipts, and to ensure appropriate amounts.

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Accountability Audit Executive Summary

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.

About the Accountability Audit

- Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse.
- Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.
- 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 fraud, loss, abuse, or noncompliance.

Accountability Areas Examined

City-wide Audit Work

Cash receipting- cash receipting and performing cash counts at various receipting locations. (Tax and License, TAGRO, Library, Tacoma Public Utility)

Procurement card purchases- gained an understanding of internal controls over card purchases and performed testing city-wide.

Procurement- gained an understanding of the process to procure each contract and agreement selected. Performed testing of various contracts and agreements to ensure procurement requirements were met.

Accountability Areas Examined

City-wide Audit Work

General IT Controls – passwords, employee setup, employee deactivation, user policies

Small and Attractive Assets - gained an understanding of internal controls over inventory, tracking, and monitoring city-wide.

Payroll-gained an understanding of internal controls over overtime and tested overtime charges city-wide.

Accountability Areas Examined

Departmental Audit Work

- **Municipal Courts** – non-cash adjustments, collections, system access, bail payments, remittance testing and report reviews
- **Fire Department IT Controls** – passwords, employee setup, employee deactivation, user policies, and accounting system access.
- **Fleet Services** – rate structure, work order testing across all City departments

Accountability Audit Report 2017

■ Related Reports Section

Financial

- We evaluated the City's financial statements and internal controls over financial reporting in a separate report.

Federal Grant Programs

- We evaluated internal controls and tested compliance with federal program requirements, for major federal programs.

Energy Independence Act Evaluation

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

Financial Statement and Federal Audits 2018



The report includes the following:

- Results of our audit over internal controls.
- Results of our audit over the financial statement information.
- Results of our audit on compliance for and internal controls over uniform Guidance.

Financial Statement and Federal Audit Results

The Financial Statement/Single audit report has been provided to you in your packet.

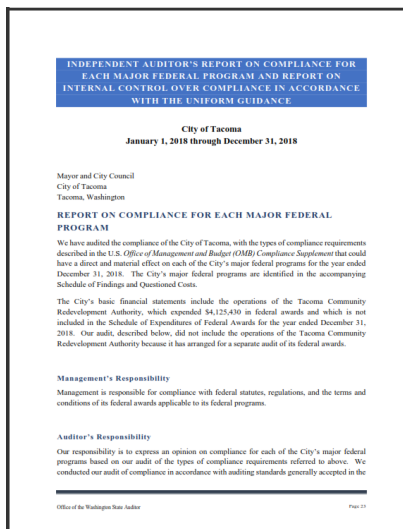
Financial Statement

- **Unmodified (clean) opinion on the financial statements**
- **Internal Controls and Compliance Report**

Federal Awards

- **Unmodified (clean) opinion on compliance for each major program**
- **Audit Findings 2018-001 and 2018-002**
- **City did not qualify as a low-risk auditee under the Uniform Guidance for FY 2018 audit**

Audit Highlight: Paula Barry and Susan Calderon were our primary contacts for the financial statement audit. We appreciate their and the financial Division's staff availability and willingness to address questions timely.



Financial Statements Audit Summary

Financial Statement Audit Results

- **Unmodified (clean) opinion on the financial statements**
- **Internal Control Report**
 - No identified deficiencies in internal controls found that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
- **Compliance Report**
 - No material instances of noncompliance that affect the statements.
 - Recommendations not Included in our report, exit Items

Financial Statement Audit Scope

Internal Controls over Major Systems - we evaluated controls to design our audit procedures

Compliance affecting the financial statements - we performed tests for noncompliance (reviewed correspondence from oversight agencies, grant audits)

Financial Statement opinion - we tested amounts and disclosures reported to gain reasonable assurance of fair presentation based on financial opinion units.

The Financial/Single Audit Report is provided for your reference.

Special Areas of Focus for 2018

New Accounting Standard

The City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The statement did not have material effect on the City's Financial statements.

Our opinion is not modified with respect to this matter.

Financial Statement Required Communications

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

- Uncorrected misstatements in the audited financial statements were summarized for management. 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.

Federal Single Audit Summary 2018

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with Uniform Guidance.

CFDA No.	Program
14.218	CDBG- Entitlement Grants Cluster-Development Block Grants/Entitlement Grants
14.239	HOME Investment Partnerships Program
20.205	Highway Planning and Construction Cluster-Highway Planning and Construction

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Tacoma
January 1, 2018 through December 31, 2018

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the City of Tacoma are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider to be material weaknesses.

Single Audit Scope

- We performed risk assessments on all City awards over \$207K.
- We then selected three major programs for the total amount of \$20.9 million and determined compliance requirements for each program. These costs amount to about 75% percent of total federal expenditures for 2018.
- We considered internal controls, and tested controls, over each compliance requirement.
- We tested applicable compliance requirements for each of the City's three major federal programs.

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Single Audit Summary

Federal Single Audit Results

- Three programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.
- *Unmodified (clean)* opinion on compliance for each major program.
- Internal Control Report
 - Community Development Block Grant - Internal control and compliance finding over subrecipient monitoring and reporting compliance requirements.
 - HOME Investment Partnership Grant – Internal control and compliance finding over matching and reporting compliance requirements.
- Recommendations not Included in our Report
 - Exit Items

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Status of Prior Findings

Prior Findings	Status
2017-001 The City needs to strengthen its internal controls to ensure accurate reporting of its Police and Firefighter's Relief and Pension Funds. (Financial Statements)	Resolved
2017-002 The City did not have adequate internal controls to ensure compliance with federal requirements regarding matching and reporting. (Single Audit – HOME Grant)	Not Corrected
2017-003 The City did not have adequate internal controls to ensure compliance with federal requirements regarding matching and reporting. (Single Audit – Community Development Block Grant)	Partially Resolved

Additional Information

Audit Cost

We estimated the cost to be \$385,000 (3,850 hours at \$100/hour) for the 2018 City of Tacoma accountability, financial statement, review of CPA work papers, and single audits.

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 Survey

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



Office of the Washington State Auditor

Pat McCarthy

Entrance Conference

City of Tacoma

October 15, 2019

2018 Audit Scope

Audit	Description	Audit Period
Accountability	To determine if controls are in place to protect public resources and if the City is in compliance with laws and regulations relating to financial matters.	January 2018-December 2018
Attestation Engagement	To perform procedures on the City of Tacoma's reporting of the renewable energy target, in accordance with the requirements of the Energy Independence Act (I-937).	January 2018-December 2018

Accountability Areas for Audit

We will audit the following areas based on our risk assessment:

- ❑ Citizen Hotline – Click! Utility Network
- ❑ Self-Insurance – required every two years
- ❑ Financial Condition – required every year
- ❑ Utility Billing and Receipting
- ❑ Payroll – Overtime and Severance pay outs
- ❑ Purchasing card use and expenditures
- ❑ Revenues – Payments in Lieu of Taxes, Ambulance and Emergency aid fees, Commercial irrigation
- ❑ General Expenditures – Office expenditures, Metro Parks payments and Other Structures and Improvement expenses

Accountability Areas for Audit

Areas for audit continued....

- ❑ REET funds – Use and accounting for REET funds
- ❑ Department Audits will include:
 - City Attorney
 - City Manager
 - Public Assembly Facilities – Tacoma Dome and Convention Center
 - Wastewater Utility
 - Library
 - Parking and Fleet
 - Procurement

Other Information

Confidential Information

Our Office is committed to protecting your confidential information. Please notify us when you give us any documents, records, files, or data containing information that is covered by confidentiality or privacy laws.

Expected Communications

We will communicate with Susan Calderon, 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.

Contact Information

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