



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Accountability Audit Report**

## **City of Tacoma**

**For the period January 1, 2017 through December 31, 2017**

**Published July 29, 2019**

**Report No. 1024305**





**Office of the Washington State Auditor  
Pat McCarthy**

July 29, 2019

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

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## 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.

- Financial condition and fiscal sustainability
- Analysis and follow up of revenue variances during 2017

Specific Departmental audits included:

- Municipal courts
- Fleet services

## RELATED REPORTS

### 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. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a significant deficiency in internal controls over financial reporting regarding the reporting of its Police and Firefighter's Relief and Pension Funds.

### 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 Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes two federal findings. One regarding internal controls over reporting and matching requirements. The other finding is regarding internal controls over subrecipient monitoring, earmarking and reporting requirements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

### Other reports

During the current audit period, the State Auditor's Office issued an examination report on the City's compliance with the state of Washington's Energy Independence Act. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE CITY

The City of Tacoma serves approximately 207,000 citizens in Pierce County and is the third largest city in the state. The City operates under a council-manager form of government with nine independently elected, part-time Council Members, including the Mayor.

The Mayor is the ceremonial head of the City and a member of the City Council. The Council Members choose a part-time Deputy Mayor from within the Council. The City Manager is appointed by the City Council and is responsible for daily operations of the City as well as its approximately 3,700 regular and temporary employees.

The City provides a full range of municipal services including police, Municipal Court, fire prevention and suppression, public works, planning and development, utilities, public facilities, community development, and general administrative and support services. In addition, the City owns public facilities including the Tacoma Dome, the Convention Center, Broadway Center for the Performing Arts, and Cheney Stadium.

For the 2017-2018 biennium, the City budget of approximately \$3.17 billion including \$1.96 billion for General Government and \$1.21 billion for the Tacoma Public Utilities. The Tacoma Metropolitan Parks District provides parks and recreation service on behalf of the City.

### Contact information related to this report

Address:	City of Tacoma 747 Market Street Room 132 Tacoma, WA 98402
Contact:	Andrew Cherullo, Finance Director
Telephone:	253-591-5805
Website:	<a href="http://www.cityoftacoma.org">www.cityoftacoma.org</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the City of Tacoma at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>





**Office of the Washington State Auditor**  
**Pat McCarthy**

**Report on Compliance with the Energy  
Independence Act**

**City of Tacoma,  
Tacoma Public Utilities – Tacoma  
Power**

**For the period January 1, 2016 through December 31, 2017**

**Published March 7, 2019**

**Report No. 1023427**





**Office of the Washington State Auditor  
Pat McCarthy**

March 7, 2019

The Chair and Members of the Public Utility Board  
City of Tacoma, Tacoma Public Utilities – Tacoma Power  
Tacoma, Washington

**Report on Compliance with the Energy Independence Act**

In November 2006, Washington voters approved Initiative 937, also referred to as the Energy Independence Act. The Act requires electric utilities with more than 25,000 customers to meet renewable energy and energy conservation targets.

Our Office is required to examine municipal utilities' and public utility districts' compliance with these targets. As of this reporting period, 12 such utilities with more than 25,000 customers were operating in Washington State. City of Tacoma, Tacoma Public Utilities – Tacoma Power is one of those utilities.

Please find attached our report on City of Tacoma, Tacoma Public Utilities – Tacoma Power's compliance with the Act.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is stylized with a large, flowing "P" and "M".

Pat McCarthy  
State Auditor  
Olympia, WA

## INDEPENDENT ACCOUNTANT'S REPORT

### **City of Tacoma, Tacoma Public Utilities – Tacoma Power January 1, 2016 through December 31, 2017**

The Chair and Members of the Public Utility Board  
City of Tacoma, Tacoma Public Utilities – Tacoma Power.  
Tacoma, Washington

We have examined City of Tacoma, Tacoma Public Utilities – Tacoma Power's compliance with the requirements of the Energy Independence Act codified in the Revised Code of Washington (RCW) 19.285.040. Specifically, we examined whether the City:

- Complied with its 81,993 megawatt-hour energy conservation target in accordance with the Act's requirements. The target compliance period was January 1, 2016 through December 31, 2017.

Management is responsible for the Utility's compliance with those specified requirements. Our responsibility is to express an opinion on the Utility's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above.

An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. In making an assessment of the risks of material noncompliance, we considered and obtained an understanding on internal control relevant to compliance in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Utility's compliance with specified requirements.

In our opinion, City of Tacoma, Tacoma Public Utilities – Tacoma Power complied, in all material respects, with the aforementioned requirements as of the two-year energy conservation compliance period ended December 31, 2017.

Our examination disclosed no issues that are required to be reported under *Government Auditing Standards*.

A handwritten signature in cursive script, reading "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

February 28, 2019

## ABOUT THE STATE AUDITOR'S OFFICE

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**  
**City of Tacoma**

**For the period January 1, 2018 through December 31, 2018**

**Published September 30, 2019**

**Report No. 1024781**





**Office of the Washington State Auditor  
Pat McCarthy**

September 30, 2019

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Tacoma's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is stylized with a large, flowing "P" and "M".

Pat McCarthy  
State Auditor  
Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

### SECTION I – 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.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

## **Identification of Major Federal Programs**

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	CDBG – Entitlement Grants Cluster – Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$829,655.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See finding 2018-001 and 2018-002.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### City of Tacoma

January 1, 2018 through December 31, 2018

**2018-001**    **The City did not have adequate internal controls to ensure compliance with federal reporting and subrecipient monitoring requirements.**

<b>CFDA Number and Title:</b>	14.218 Community Development Block Grant/Entitlement Grants
<b>Federal Grantor Name:</b>	Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	B-14-MC-53-007 B-15-MC-53-007 B-16-MC-53-007 B-17-MC-53-007 B-18-MC053-007
<b>Pass-through Entity Name:</b>	N/A
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Questioned Cost Amount:</b>	\$0

### *Background*

The primary objective of the Community Development Block Grant (Program) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, mainly for people with low to moderate income. The City spent \$2,059,134 in grant funds during fiscal year 2018, of which it passed \$1,421,251 through to subrecipients.

Federal regulations require grant recipients to establish and maintain internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring program compliance.

## *Description of Conditions*

### **Reporting**

Program regulations require each recipient that administers covered public and Tribal housing assistance, regardless of amount spent, and each recipient that administered covered housing and community development assistance exceeding \$200,000 in a program year, must submit the HUD 60002 performance report, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*. This performance report is due at the same time as the Consolidated Annual Performance and Evaluation Report (CAPER), which for the City is September 30.

The City did not have controls in place or a process to ensure it prepared and submitted the HUD 60002 report when it was due to the granting agency, as required.

We consider this internal control deficiency to be a material weakness.

The issue was reported as a finding in the prior audit as finding 2017-003.

### **Subrecipient monitoring**

Federal regulations require the City to do the following for every subaward it issues:

- Clearly identify to the subrecipient 1) the award as a subaward by providing the information described in criteria noted below; 2) all requirements imposed by the City on the subrecipient so the award is used in accordance with federal statutes, regulations, and the terms and conditions of the award; and 3) any additional requirements that the City imposes on the subrecipient for the City to meet its own responsibility for the award
- Evaluate the subrecipient's risk of noncompliance to determine the appropriate subrecipient monitoring related to the subaward
- Monitor the activities of the subrecipient as necessary to ensure the subaward is used for authorized purposes, complies with its terms and conditions, and achieves performance goals. In addition to the monitoring identified as necessary by the risk evaluation, this includes: 1) reviewing required reports; 2) following up and ensuring the subrecipient takes timely action on all deficiencies detected through audits, onsite reviews, or other means; and 3) issuing a management decision for audit findings pertaining to the award the City provided to the subrecipient.

The City could not demonstrate controls were in place during the audit period.

We consider this internal control deficiency to be a material weakness.

This condition was reported as a finding in the prior audit as finding 2017-003.

### ***Cause of Conditions***

The City experienced turnover in key personnel responsible for grant management. Department management did not assign the necessary responsibilities to new staff members or monitor to ensure the City complied with the Program's requirements.

### ***Effect of Conditions***

#### **Reporting**

The City did not comply with the Program requirement to submit its annual HUD 60002 performance report to the granting agency by September 30, 2018.

#### **Subrecipient monitoring**

The City did not comply with the Program requirements for subrecipient monitoring as follows:

The City did not include all of the required information in its subrecipient contracts. Without this information, there is an increased risk that the subrecipient would not be aware of and not comply with Program requirements or may spend funds for unallowed purposes. The required elements missing from the contract were:

- The subrecipient's unique entity identifier
- Federal award identification number
- Federal award date
- CFDA number and name
- Identification of whether the award was for research and development (R&D)

For four contracts, totaling 534,935, that required annual monitoring, the City could not provide supporting documentation that it performed risk assessments, as required.

The City performed monitoring activities but had insufficient documentation to determine if this occurred and was reviewed during the audit period.

Further, the City could not provide documentation showing it performed the following subrecipient monitoring activities:

- Verify if the subrecipient received a single audit (if required)
- Ensure corrective actions were taken on any deficiencies identified;
- Issue a management decision within six months of audit report issuance

## ***Recommendations***

### **Reporting**

We recommend the City assign the responsibilities of ensuring reporting requirements are met, as required by the Program.

### **Subrecipient monitoring**

We recommend the City ensure that subrecipient monitoring requirements are completed and supporting documentation maintained to demonstrating subrecipient monitoring took place, as required by the Program.

## ***City's Response***

*City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:*

### ***Reporting***

*As a recipient of CDBG grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. To ensure compliance with this requirement, the City has assigned a staff member to complete and submit this report by the appropriate deadline. While the Program Year 2017 report was not submitted on time, the assigned staff member did submit in May 2019. Unfortunately, this was not done during the January 1, 2018 to December 31, 2018 audit period. The assigned staff member will provide confirmation to management that they have submitted the report.*

### ***Subrecipient Monitoring***

*Federal regulations require the City to include specific information within its contracts with subrecipients and to monitor activities, as well as, following up on*

*any deficiencies identified through audits and reviews. To ensure the contracts include all required information, the City will review the agreements to ensure all required items are included in applicable contract templates. In addition, the City will request copies of audit reports and reviews to ensure sub-recipient takes appropriate action to address any deficiencies.*

### ***Auditor's Remarks***

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 2 CFR Part 200, Uniform Guidance, section 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 327, Financial reporting, establishes requirements for reporting financial information related to Federal awards.

Title 24 CFR Part 135, Economic Opportunities for Low- and Very Low-Income Persons, sections 135.3, Applicability, and 135.90, Reporting, provide the requirements for the applicability of and submitting HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System.

Title 2 CFR Part 200, Uniform Guidance, Section 331, Requirements for pass-through entities, establishes sub-recipient monitoring and management requirements for pass-through entities.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### City of Tacoma

January 1, 2018 through December 31, 2018

**2018-002    The City did not have adequate internal controls to ensure compliance with federal matching and reporting requirements**

<b>CFDA Number and Title:</b>	14.239 Home Investment Partnerships Program (HOME Program)
<b>Federal Grantor Name:</b>	Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	M-14-DC-53-0206 M-15-DC-53-0206 M-16-DC-53-0206 M-17-DC-53-0206 M-18-DC-53-0206
<b>Pass-through Entity Name:</b>	N/A
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Questioned Cost Amount:</b>	\$0

### *Background*

The City of Tacoma administers the Home Investment Partnership Program (HOME). The City spent \$843,984 in grant funds during fiscal year 2018. One of the main objectives of HOME is to expand the supply of decent and affordable housing, particularly for low- and very-low-income households. The Program supports construction, acquisition or rehabilitation of affordable housing units, and creates rental and home-ownership opportunities.

Federal regulations require grant recipients to establish and maintain internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring for program compliance.



## ***Description of Conditions***

### **Reporting**

Program regulations require each recipient that administers covered public and Tribal housing assistance, regardless of amount spent, and each recipient that administered covered housing and community development assistance exceeding \$200,000 in a program year, to submit the HUD 60002 performance report, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*. This performance report is due at the same time as the Consolidated Annual Performance and Evaluation Report (CAPER), which for the City is September 30.

The City did not have controls in place or a process to ensure it prepared and submitted the HUD 60002 report when it was due to the granting agency, as required.

We consider this internal control deficiency to be a material weakness.

The issue was reported as a finding in the prior audit as finding 2017-002.

### **Matching**

Under federal regulations, the City must provide eligible matching contributions of 25 percent of HOME funds spent during the fiscal year. The match must be provided by the end of the fiscal year. To demonstrate compliance with matching requirements, the City must keep documentation, including individual project records and a running log of match obligations, and match credits as they are generated.

The City did not have controls in place to ensure it identified, calculated or reported its matching contributions, as required.

We consider this internal control deficiency to be a material weakness.

The issue was reported as a finding in the prior audit as finding 2017-002

## ***Cause of Conditions***

The City experienced turnover in key personnel responsible for grant management. Department management did not assign the necessary responsibilities to new staff members or monitor to ensure the City complied with HOME requirements.

## ***Effect of Conditions and Questioned Costs***

### **Reporting**

The City did not comply with the requirement to submit its annual HUD 60002 performance report to the granting agency by September 30, 2018.

### **Matching**

The City was reimbursed funds without knowing if it would meet the 25 percent matching funds requirement by the end of the year. The City used a report from the federal Integrated Disbursement and Information System (IDIS) website to show it complied with the matching funds requirement; therefore, we are not questioning the costs.

## ***Recommendation***

We recommend the City establish and follow internal controls to ensure it submits required reports to the grantor and accurately tracks and reports eligible matching contributions, as required by HOME.

## ***City's Response***

*City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:*

### **Reporting**

*As a recipient of HOME grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. To ensure compliance with this requirement, the City has assigned a staff member to complete and submit this report by the appropriate deadline. While the Program Year 2017 report was not submitted on time, the assigned staff member did submit in May 2019. Unfortunately, this was not done during the January 1, 2018 to December 31, 2018 audit period. The assigned staff member will provide confirmation to management that they have submitted the report.*

### **Matching**

*As a recipient of HOME grant funds, the City must have a process in place to identify, calculate, monitor and report eligible matching contributions of 25% of*

*HOME funds spent each year. Procedures were developed to ensure matching dollars are appropriately tracked. Unfortunately, those were not in place during the completion of the Program Year 2017 Consolidated Annual Performance and Evaluation report submitted in September 2018. However, because HOME funds are primarily utilized for large affordable housing developments that have a range of funding sources that far exceed a match requirement, City staff believes this requirement was met. To ensure compliance with this requirement, the City will implement procedures to appropriately track matching funds. This will include working with grantees, when applicable, to ensure they submit confirmation of matching funds utilized in a funded project.*

### ***Auditor's Remarks***

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 2 CFR) Part 200, Uniform Guidance, section 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 327, Financial reporting, establishes requirements for reporting financial information related to Federal awards.

Title 24 CFR Part 92, HOME Investment Partnerships Program, sections 92.218-.222, Matching Contribution Requirement and 92.508, Recordkeeping, describe the program-specific requirements for matching and the records that must

be maintained, including individual project records and a running log to demonstrate compliance with matching requirements.

Title 24 CFR Part 135, Economic Opportunities for Low- and Very Low-Income Persons, sections 135.3, Applicability, and 135.90, Reporting, provide the requirements for the applicability of and submitting HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System.



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

This schedule presents the status of federal findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2017 through December 31, 2017	<b>Report Ref. No.:</b> 22949	<b>Finding Ref. No.:</b> 2017-001
<b>Finding Caption:</b> The City needs to strengthen its internal controls to ensure accurate reporting of its Police and Firefighter's Relief and Pension Funds.		
<b>Background:</b> Management is responsible for designing, implementing and maintaining internal controls to fairly present financial statements and provide reasonable assurance regarding reliability of financial reporting. The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the <i>Budgeting, Accounting and Reporting System</i> (BARS) Manual. Our audit identified a significant deficiency in internal controls over accounting and financial reporting that hampered the City's ability to produce reliable financial statements. Governmental Accounting Standards Board (GASB) Statement 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions.		
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>City of Tacoma holds their responsibility for enabling internal controls to ensure accurate financial reporting at the highest regard. The implementation of GASB Statement No. 73 spanned two years. With transition in key staff responsible for CAFR preparation coupled with the verbiage contained in the 2016 CAFR, it appeared the entire statement had been</i>		

*implemented with no mention of additional requirements outstanding. The City appropriately implemented three additional standards with the preparation of the 2017 CAFR.*

*The City has taken several steps to improve internal controls over financial reporting. Recognizing the need to involve additional members of management and staff in the implementation of GASB standards each year, the City has begun to hold regular GASB Implementation meetings of the GASB Implementation Committee. This ensures that valuable information regarding the implementation of accounting standards will carry forward from year-to-year should there be a transition amongst key staff. To achieve this, the City has and will continue to:*

- 1. Provide external training opportunities on new and upcoming GASB's to all accounting managers, as well as other key staff. This year's training included (not a comprehensive listing):*
  - a. Webinars on upcoming GASB's*
- 2. Washington Finance Officers Association Conference*  
*Engage all accounting managers and other key City staff in the implementation of new GASB standards. For the fiscal year ended December 31, 2018, the City implemented GASB No. 75, No. 85 and No. 86. In addition, the City reviewed and implemented GASB No. 89 effective of January 1, 2019. The process included:*
  - a. Holding regular meetings to discuss implementation,*
  - b. Reviewing and assigning individual tasks included on the checklist for implementation of new accounting standards,*
  - c. Creating and documenting a plan for implementation, and*
  - d. Updating the year-end checklist to reflect important milestones to the GASB implementations.*
- 3. Internal training was provided to staff impacted by the change in accounting standard on a one-on-one or small group basis.*

<b>Audit Period:</b> January 1, 2017 through December 31, 2017	<b>Report Ref. No.:</b> 22949	<b>Finding Ref. No.:</b> 2017-002	<b>CFDA Number(s):</b> 14.239
<b>Federal Program Name and Granting Agency:</b> HOME Investment Partnership Program Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> N/A	

**Finding Caption:**

The City did not have adequate internal controls to ensure compliance with federal requirements regarding matching and reporting.

**Background:**

The City of Tacoma administers the HOME Investment Partnership Program (Program) spent \$1,321,601 in grant funds during fiscal year 2017. One of the main objectives of HOME is to expand the supply of decent and affordable housing, particularly for low- and very-low-income households. The Program supports construction, acquisition or rehabilitation of affordable housing units and creates rental and home-ownership opportunities.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure program funds are spent in accordance with the program's requirements. These controls include knowledge of grant requirements and monitoring of program compliance.

**Status of Corrective Action: (check one)**

☐ Fully  
Corrected

☐ Partially  
Corrected

☒ Not Corrected

☐ Finding is considered no  
longer valid

**Corrective Action Taken:**

City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. The City has taken steps to improve internal controls and develop procedures such as:

1. The City has assigned staff the responsibility to submit the required reports, as well, as provide confirmation that it's been submitted.
2. The City created procedures to appropriately track matching funds and they will continue to train staff on the procedures to ensure compliance.

<b>Audit Period:</b>	<b>Report Ref. No.:</b>	<b>Finding Ref. No.:</b>	<b>CFDA Number(s):</b>
January 1, 2017 through December 31, 2017	22949	2017-003	14.218
<b>Federal Program Name and Granting Agency:</b>  Community Development Block Grant/Entitlement Grants  Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b>  N/A	

**Finding Caption:**

The City did not have adequate internal controls to ensure compliance with federal subrecipient monitoring, earmarking and reporting requirements.

**Background:**

The primary objective of the Community Development Block Grant (Program) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. The City spent \$1,572,266 in grant funds during fiscal year 2017.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure program funds are spent in accordance with the program's requirements. These controls include knowledge of grant requirements and monitoring of Program compliance.

**Status of Corrective Action: (check one)**

☐ Fully  
Corrected

☒ Partially  
Corrected

☐ Not Corrected

☐ Finding is considered no  
longer valid

**Corrective Action Taken:**

*City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place to ensure that it complies with all requirements governing the administration of federal grant programs.*

*The City has taken steps to improve internal controls and develop procedures such as:*

- 1. The City has worked with the attorney to update contract templates.*
- 2. It's developed procedures to verify and document the review of the earmarking requirement*
- 3. The City has assigned staff the responsibility to submit the required reports, as well, as provide confirmation that it's been submitted.*



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 of the City of Tacoma, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 17, 2019. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Our report includes a reference to other auditors who audited the financial statements of the Power, Sewer, Water, Solid Waste, and Tacoma Rail funds, as described in our report on the City's basic financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 17, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

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

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Tacoma, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

The City's basic financial statements include the operations of the Tacoma Community Redevelopment Authority, which expended \$4,125,430 in federal awards and which is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2018. Our audit, described below, did not include the operations of the Tacoma Community Redevelopment Authority because it has arranged for a separate audit of its federal awards.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the

United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

### **City's Response to Findings**

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2018-001 and 2018-002 to be material weaknesses.

### City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

September 26, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying 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 of the City of Tacoma, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 31.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Power, Sewer, Water and Solid Waste funds, which are presented as major funds and in aggregate represent 91 percent, 90 percent, and 89 percent, respectively, of the assets, net position, and revenues of the business-type activities. We also did not audit the financial statements of the Tacoma Rail fund, which represents one percent, one percent, and four percent, respectively, of the assets, net position and revenues of the business-type activities and two percent, one percent, and eight percent, respectively, of the assets, net position and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion,



insofar as it relates to the amounts included for the Power, Sewer, Water, Solid Waste and Tacoma Rail funds, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tacoma, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*


Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 17, 2019

## **FINANCIAL SECTION**

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

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2018

Statement of Activities – 2018

Balance Sheet – Governmental Funds– 2018

Reconciliation of Balance Sheet of Governmental Funds to the Government-Wide  
Statement of Net Position – 2018

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2018

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
to the Statement of Activities – Governmental Funds – 2018

Statement of Net Position – Proprietary Funds – 2018

Reconciliation of Total Enterprise Net Position to the Government-wide Statement of Net  
Position – 2018

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2018

Reconciliation of the Statement of Revenues, Expenditures, and Change in Net Position  
of Enterprise Funds to the Statement of Activities – Business Activities – 2018

Statement of Cash Flows – Proprietary Funds – 2018

Statement of Fiduciary Net Position – Fiduciary Funds – 2018

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2018

Notes to Financial Statements – 2018

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability - LEOFF 1, LEOFF 2, and  
TERS – 2018

Schedule of Employer Contributions – LEOFF 1, LEOFF 2, and TERS – 2018

Schedule of Changes in Total Pension Liability and Related ratios – Firefighters and  
Police Pension Fund – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios– 2018  
Schedule of Revenues, Expenditures, and Changes to Fund Balance – Budget to Actual –  
General Fund – 2018  
Notes to Required Supplemental Information – 2018

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2018  
Notes to the Schedule of Expenditures of Federal Awards – 2018



## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

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

This schedule presents the corrective action planned by the City for findings reported in this report 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).

<b>Finding ref number:</b> 2018-001	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal reporting and subrecipient monitoring requirements.
<b>Name, address, and telephone of City contact person:</b> Susan Calderon, Assistant Finance Director/Controller 747 Market Street, Suite 132 Tacoma, WA 98402 (253) 591-5802	
<b>Corrective action the auditee plans to take in response to the finding:</b> <b>Reporting</b> <i>City of Tacoma holds their responsibility for enabling internal controls to ensure accurate financial reporting at the highest regard. As a recipient of CDBG grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. To ensure compliance with this requirement, the City has assigned a staff member to complete and submit this report by the appropriate deadline. The assigned staff member will provide confirmation to management that they have submitted the report.</i> <b>Sub-recipient Monitoring</b> <i>Federal regulations require the City to include specific information within its contracts with subrecipients and to monitor activities, as well as, following up on any deficiencies identified through audits and reviews. To ensure the contracts include all required information, the City will review the agreements to ensure all required items are included in applicable contract templates. In addition, the City will request copies of audit reports and reviews to ensure sub-recipient takes appropriate action to address any deficiencies.</i>	
<b>Anticipated date to complete the corrective action:</b> December 31, 2019	

<b>Finding ref number:</b> 2018-002	<b>Finding caption:</b> The City did not have adequate internal controls to ensure compliance with federal matching and reporting requirements.
<b>Name, address, and telephone of City contact person:</b> Susan Calderon, Assistant Finance Director/Controller 747 Market Street, Suite 132 Tacoma, WA 98402 (253) 591-5802	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:</i> <b>Reporting</b> <i>As a recipient of HOME grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. To ensure compliance with this requirement, the City has assigned a staff member to complete and submit this report by the appropriate deadline. The assigned staff member will provide confirmation to management that they have submitted the report.</i> <b>Matching</b> <i>As a recipient of HOME grant funds, the City must have a process in place to identify, calculate, monitor and report eligible matching contributions of 25% of HOME funds spent each year. Procedures were developed to ensure matching dollars are appropriately tracked. To ensure compliance with this requirement, the City will implement procedures to appropriately track matching funds. This will include working with grantees, when applicable, to ensure they submit confirmation of matching funds utilized in a funded project.</i>	
<b>Anticipated date to complete the corrective action:</b> December 31, 2019	

## ABOUT THE STATE AUDITOR'S OFFICE

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>