

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Sumner King County January 1, 2015 through December 31, 2015

2015-001 The City of Sumner's internal controls over financial reporting are inadequate to ensure accurate reporting.

Background

Entity management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in controls that adversely affects the Town's ability to produce reliable financial statements.

Government Auditing Standards prescribed by the Comptroller General of the United States require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting.

- The City's employees responsible for preparation and review of financial statements did not have the sufficient technical knowledge necessary to ensure complete and accurate financial reports.
- The City lacked an effective review process to ensure amounts reported in the financial statements, notes to financial statements and schedules were accurate.

We consider this to be a significant deficiency.

Cause of Condition

The City did not have adequate internal control procedures in place to ensure it followed BARS manual reporting guidance when preparing the financial statements and did not perform appropriate account reconciliations to ensure the statements and schedules were accurate and complete.

The City does not have an adequate review process to ensure accurate and complete financial reporting.

Effect of Condition

During our review of the City's financial statements, we found the following errors in the financial statements we received for audit:

The City did not record journal entries for interfund transfers that occurred during the period, causing the financial statements to be misstated as follows.

Ending Cash and Investment:

- Street fund 101 reported a negative \$138,672 Cash and Investment balance.
- LID fund 307 reported a negative \$2,635,000 Cash and Investment balance.

Errors in the Interfund Transfers in and out balances:

- Transfers in for the Street fund and LID fund were understated in aggregate, the \$2,773,672.
- The General fund transfers out were understated \$138,672.
- The Capital Projects fund 303 transfers out were understated \$1,635,000.
- Arterial Street fund transfers out were understated \$1,000,000.

Recommendation

We recommend the City establish and follow an internal control process that includes performing appropriate account reconciliations, and a detailed review of the financial statements by a knowledgeable person to ensure the statements are materially correct. This should include review of the State Auditor's Office Budgeting Accounting and Reporting System Manual (BARS) and other financial resources to ensure the financial statements are properly presented.

City's Response

We appreciate the opportunity to respond to the auditor's finding regarding the timing of interfund transfers.

The City adopts a biennial budget; interfund transfers are posted on a quarterly basis consistent with the biennial budget (8 transfers total) for 2015/2016.

In the Street Fund (Fund 101), the reported deficit at 12/31/2015 was due to the timing of the transfers. Upon the auditor's recommendation, the 1st quarter 2016 interfund transfer from the General Fund was accelerated to resolve the 12/31/2015 reporting issue.

Fund 307 (Local Improvement District Development Fund) was created to reflect costs associated with the 136th/Valentine Corridor Improvement Project. This project is a joint project with the City of Pacific, with the City of Sumner as lead agency over all aspects of the project. This is a complex project consisting of an arterial corridor improvement crossing two cities, with multiple funding partners, both state and federal. As the lead agency, the City of Sumner administers all contracts and processes all expenditures, billing both the funding partners and the City of Pacific as appropriate. In 2015, Fund 307 presented a cash deficit due to both timing of grant reimbursements (including a reimbursement of \$2,323,179 received 01/07/2016) and amounts due from the City of Pacific for their portion of costs. To revise the fund presentation at 12/31/2015, the City processed an interfund transfer from the General Government Capital Fund (303) and the Arterial Street Fund (102).

The City anticipates no deficit positions at the end of the 2015/2016 biennium.

It is important to note that the ending cash and investment total for all funds was correctly reported, and all auditor requested revisions in presentation were completed. At no time was the ending cash and investment total for all funds misstated.

We appreciate the opportunity to work with the State Auditor's Office to continually improve our processes.

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

RCW 43.09.200 Local government accounting—Uniform system of accounting, states in part.

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be

uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Audit Standards section 115 as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.