

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

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

2018-001 The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate financial reporting.

Background

City council, state and federal agencies, and the public rely on the information included in governmental financial statements and reports to make decisions. City management is responsible for designing and maintaining internal controls to ensure financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP) and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in internal controls over financial reporting that affected the City's ability to produce reliable financial statements.

Government Auditing Standards requires that the auditor communicate a material weakness as a finding.

Description of Condition

We identified the following deficiencies in internal controls:

- The review process of journal entries was not effective in detecting and correcting errors before entries were posted to the general ledger and included in the financial statements.
- The City incorrectly netted the amortization of deferred outflows and deferred inflows related to pension balances, which resulted in inaccurate allocations between funds.
- The City did not detect a reporting error related to the presentation of unearned revenue in the H.U.D. Fund.
- The City's review process lacked sufficient analysis to evaluate the accuracy of the financial statements.

Cause of Condition

The City prepares multi-fund financial statements in accordance with GAAP. These financial statements are complex, and reporting requirements change frequently. The City experienced staff turnover during fiscal year 2018 in key positions responsible for preparing the financial statements. As a result, the City was unable to dedicate sufficient resources to ensure accurate reporting or perform an effective review of the final financial statements.

Effect of Condition

Our audit of the City's financial statements identified the following:

- The City over-reported a receivable account by \$522,224 in the Home Construction in Progress Fund; sales tax revenue was over-reported by the same amount.
- The financial statements included classifications errors as follows:

Financial Statement Balance	Over/(under) reported
General Government Program Revenues from Capital Grants and Contributions	\$3,390,681
Transportation Program Revenues from Capital Grants and Contributions	(\$1,559,862)
Culture and Recreation Program Revenues from Capital Grants and Contributions	(\$1,830,819)
Deferred Inflow - Related to Receivables	\$1,511,403
Deferred Inflow - Related to Pensions	(\$1,511,403)

- The City over-reported unearned revenue in the H.U.D. Fund by \$4,400,112 and under-reported the restricted net position by the same amount. Because the Government Fund financial statements are reported on a modified accrual basis of accounting, the non-current portion of Notes/Contracts/Loans receivable should be reported as a restricted fund balance.
- In total, the City over-reported its pension expense by \$625,781. Additionally pension related balances were incorrectly allocated to the individual funds due to the City's misunderstanding of reporting requirements.

We also identified other minor errors in the Management's Discussion and Analysis and the Notes to the Financial Statements. The City corrected the errors noted in the final financial statements.

Recommendation

We recommend the City strengthen its review of journal entries. It should also ensure that someone familiar with applicable reporting requirements perform an independent review of the financial statements, notes and additional schedules, at the appropriate level of detail to ensure information prepared is complete and accurate. In addition, the City should consider using the Pensions reporting tool provided by the Office of the Washington State Auditor to ensure that pension balances are accurately calculated.

City's Response

The City of Olympia would like to thank the State Auditor's Office for its review of the City's financial statements and for the opportunity to provide a response to the audit finding related to internal controls. The City is committed to the internal control processes in relation to all aspects of financial reporting. The City will ensure changes are made to mitigate the future risk brought forward by this audit.

Auditor's Remarks

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

Applicable Laws and Regulations

Statement No. 45 of the Governmental Accounting Standards Board

Statement No. 54 of the Governmental Accounting Standards Board

Statement No. 68 of the Governmental Accounting Standards Board

RCW 43.09.200 Local government accounting – Uniform system of accounting

Government Auditing Standards, December 2011 Revision, paragraph 23

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 115

Budgeting, Accounting, and Reporting System (BARS) manual – Accounting, Accounting Principles and Internal Control