



Office of the Washington State Auditor

Pat McCarthy

Entrance Conference: City of SeaTac

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share our planned audit scope so that we are focused on the areas of highest risk. We value and appreciate your input.

Audit Scope

Based on our planning, we will perform the following audits:

Accountability audit for January 1, 2017 through December 31, 2017

We will examine the management, use and safeguarding of public resources to ensure there is protection from misuse and misappropriation. In addition, we will evaluate whether there is reasonable assurance for adherence to applicable state laws, regulations and policies and procedures.

We plan to evaluate the following areas:

- General disbursements
- Small and attractive assets
- Third-party cash receipting
- Municipal Court
- Financial condition
- Cost allocation
- Open public meeting minutes

Financial statement audit for January 1, 2017 through December 31, 2017

The purpose of our financial statement audit is to provide an opinion on whether your financial statements are presented fairly, in all material respects, in accordance with the applicable reporting framework. The audit does not attempt to confirm the accuracy of every amount, but does search for errors large enough to affect the conclusions and decisions of a financial statement user.

Engagement Letter

We have provided an engagement letter that confirms both management and auditor responsibilities, and other engagement terms and limitations. Additionally the letter identifies the cost of the audit, estimated timeline for completion and expected communications.

Levels of Reporting

Findings

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

Management Letters

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

Exit Items

Exit items address control deficiencies or non-compliance with laws or regulations that have an insignificant effect on the audit objectives. These issues are informally communicated to management.

Important Information

Confidential Information

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

Audit Costs

The cost of the audit is estimated to be approximately \$66,950 plus estimated travel expenses of \$4,100.

Expected Communications

During the course of the audit, we will communicate with Christina McCall, Accounting Analyst, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.

Please let us know if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect Christina to keep us informed of any such matters.

Audit Dispute Process

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

Loss Reporting

State agencies and local governments are required to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. These notifications can be made on our website at <http://portal.sao.wa.gov/saoportal/public.aspx/LossReport>.

Peer Reviews of the Washington State Auditor's Office

To ensure that our audits satisfy *Government Auditing Standards*, our Office receives external peer reviews every three years by the National State Auditors Association (NSAA). The most recent peer review results are available online at <http://www.sao.wa.gov/about/Pages/PeerReviews.aspx>. Our Office received a "pass" rating, which is the highest level of assurance that an external review team can give on a system of audit quality control.

Working Together to Improve Government

Audit Survey

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

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

Performance Center

The Performance Center is a resource for local governments that need to solve problems, reduce costs, and improve the value of their services to citizens. The Center offers training and tools to help local governments improve performance and effectiveness.

Audit Team Qualifications

Kelly Collins, CPA, 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. Phone: (360) 902-0091 or Kelly.Collins@sao.wa.gov.

Mark Rapozo, CPA, Assistant 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. Phone: (360) 902-0471 or Mark.Rapozo@sao.wa.gov.

Saundra Groshong, Audit Manager – Saundra has been with the Washington State Auditor’s Office since 2000. In her role, she oversees Team South King County, which performs the audits for over 85 state and local governments. She has also worked on three teams covering various audits throughout King, Pierce, and Thurston Counties. Phone: (253) 372-6250 ext. 105 or Saundra.Groshong@sao.wa.gov.

Brandon Tecca, Assistant Audit Manager – Brandon has been with the Washington State Auditor’s Office since 2013. During his time with the Office Brandon has been part of the South King County and Tacoma Team covering local governments throughout King and Pierce County. Phone: (253) 372-6250 or Brandon.Tecca@sao.wa.gov.

Sean Fitzgerald, Esq. Audit Lead – Sean has been with the State Auditor’s Office since 2015 and recently joined Team South King County from Team Bellingham. He is a licensed attorney and has been a member of the Washington State Bar Association since 2013. Phone: (253) 372-6250 or Sean.Fitzgerald@sao.wa.gov.



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

October 4, 2018

City Council and City Manager Joseph Scorcio
City of SeaTac
4800 S. 188th St.
SeaTac, WA 98188

We are pleased to confirm the audits to be performed by the Office of the Washington State Auditor for the City of SeaTac. This letter confirms the nature and limitations of the audits, as well as responsibilities of the parties and other engagement terms.

Office of the Washington State Auditor Responsibilities

Financial Statement Audit

The Office of the Washington State Auditor agrees to perform an audit of the basic financial statements of the City of SeaTac as of and for the fiscal year ended 2017, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our audits will be conducted with the objective of our expressing opinions on these financial statements.

We will perform 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, rather than absolute, assurance about whether the financial statements are free from material misstatement. Since we do not review every transaction, our audit cannot be relied upon to identify all misstatements.

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 will express no such opinion.

Although our audit is not designed to provide an opinion on the effectiveness of internal control over financial reporting, we are required to report any identified significant deficiencies and material weaknesses in controls. We are also required to report instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the accuracy of financial statements, or any instances of material abuse that come to our

attention. Abuse is defined by *Government Auditing Standards* as involving behavior that is deficient or improper, or misuse of authority or position for personal financial interests. As the determination of abuse is subjective, *Government Auditing Standards* do not require auditors to detect instances of abuse.

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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the standards identified above.

Our responsibility is to express in a written report an opinion on the financial statements based on the results of our audit. We cannot provide assurance that an unmodified opinion will be expressed. We may modify or disclaim an opinion on your financial statements if we are unable to complete the audit or obtain sufficient and appropriate audit evidence supporting the financial statements. If our opinion is other than unmodified, we will fully discuss the reason with you prior to issuing our report. Further, in accordance with professional standards, we may add emphasis-of-matter or other-matter paragraphs to the report for matters that, in our judgment, are relevant to understanding the financial statements or our audit.

We will also issue a written report (that does not include an opinion) on issues identified during the audit related to the City's internal control over financial reporting and on compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

The City also prepares other information to accompany the financial statements, which is required by accounting standards or is done at its discretion. We will perform limited procedures on this information for the purpose of identifying inconsistencies with the financial statements. However, we will not express an opinion on its fair presentation.

Accountability Audit

In accordance with RCW 43.09.260, we will perform an accountability audit for the fiscal year ended 2017, of the City's compliance with applicable state laws, regulations, policies and procedures, and safeguarding of public resources in areas representing the highest risk of fraud, loss, abuse, or noncompliance.

Areas will be selected for audit using a risk-based approach and will be identified in the audit entrance conference.

Upon completion of our audit we will issue a written report describing the overall results and conclusions for the areas we examined.

Other SAO Responsibilities

Additionally, the Office of the Washington State Auditor will:

- Provide advanced notification if we identify issues that require further audit work and increase audit costs.

- Participate in weekly progress meetings to discuss audit plans for future weeks. At those meetings, we will provide information on the areas we will work in and the audit objectives we will be addressing.
- Safeguard financial records and documentation from loss, damage, and inadvertent release to unauthorized persons.
- Conduct a formal exit conference with the City to discuss results of the financial statement and accountability audit.
- Interact with City staff professionally and respectfully and communicate needs and issues in a timely manner.
- Allow the City seven days to provide a written response to any findings.

Reporting Levels for Audit Issues

Issues identified through the auditing process will be communicated as follows. Failure to appropriately address audit issues may result in escalated reporting levels.

- **Findings** formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations, and contracts or grant agreements. You will be given the opportunity to respond to a finding, and this response, or a synopsis of it, will be published in the audit report. Professional auditing standards define the issues we must report as findings with regard to non-compliance with a financial statement effect and internal controls over financial reporting.
- **Management letters** communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other issues with significance to the audit objectives. Management letters are referenced, but not included, in the audit report.
- **Exit items** address control deficiencies or non-compliance with laws or regulations that have an insignificant or immaterial effect on the audit objectives, or errors with an immaterial effect on the financial statements. These issues are informally communicated to management, but do not warrant the attention of those charged with governance and are not referenced in the audit report.

Client's Responsibilities

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 (GAAP) 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. Our audit does not relieve management or the governing body of their responsibilities.

Management is also responsible for:

- Selecting and applying appropriate administrative and accounting policies.
- Establishing and maintaining effective internal controls over financial reporting, compliance, and safeguarding of public resources.
- Designing and following effective controls to prevent and detect fraud, theft, and loss.
- Ensuring compliance with laws, regulations and provisions of contracts and grant agreements.
- Making all financial records and related information available to us.
- Correcting the financial statements based on the results of our audit.
- Identifying and providing copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented.

- Promptly reporting to us knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others, in accordance with RCW 43.09.185.
- Providing us with a management representation letter, on the City's own letterhead, that confirms certain representations, both express and implied, which we will request at the conclusion of our audit. This letter includes representations regarding legal matters. A separate letter may be needed from the City's legal counsel.
- Following up and taking corrective action on all audit findings, including, when applicable, preparing a summary schedule of prior audit findings and a corrective action plan on the City's own letterhead.

Management will provide the Office of the Washington State Auditor with the information required for performing the audit and is responsible for the accuracy and completeness of that information. Management will notify the Office of the Washington State Auditor when any documents, records, files, or data contain information that is covered by confidentiality or privacy laws, such as HIPAA.

All misstatements identified by the audit will be discussed with management. Material misstatements corrected by management and all uncorrected misstatements will be communicated at the exit conference, as required by professional auditing standards.

Management's Written Representations

At the conclusion of our audit, we will also request certain written representations from you about the audit, including items discussed above.

Estimated Audit Costs and Timeline

We estimate the cost of the audit work to be \$66,950, plus estimated charges for travel time of \$4,100, travel costs, and other expenses, if any, with work having commenced by September 12, 2018. Invoices for these services will be prepared and presented each month as our audit work progresses.

We anticipate our reports, which will be addressed to the City's governing body and published on our website www.sao.wa.gov to be available to you and the public as outlined below. These estimates are based on timely access to financial information and no significant audit reporting issues. The estimated cost and completion date may change if unforeseen issues arise or if significant audit issues are identified necessitating additional audit work. We will promptly notify you if this is the case.

Report	Date*
Independent Auditor's Report on Financial Statements	November 2018
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 <i>Government Auditing Standards</i>	November 2018
Independent Auditor's Report on Accountability	November 2018

**Report Issuance Dates Are Estimates Only*

The audit documentation for this engagement, which may contain confidential or sensitive information, is the property of SAO and constitutes a public record under Chapter 42.56 RCW. Subject to applicable laws and regulations, appropriate individuals, as well as audit documentation,

will be made available upon request and in a timely manner to appropriate auditors and reviewers, City's management and governing body, and federal agencies, for purposes of a public records request, a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities.

The audit documentation for this engagement will be retained for a minimum of five years after the report release (publish) date in accordance with the public records retention schedule established by the Washington Secretary of State.

Expected Communications

During the course of the audit, we will communicate with the City's selected audit liaison, Christina McCall, Accounting Analyst, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed. The audit liaison is responsible for regularly updating the City's management and the governing body on these matters. We may also provide direct communication of these matters to management and the governing body as needed or at the City's request.

Please contact us if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect the audit liaison to keep us informed of any such matters.

Audit Dispute Process

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

By signing and returning this letter you acknowledge that the foregoing is in accordance with your understanding. Please contact us with any questions.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

Sincerely,



Saundra Groshong, Audit Manager 10/4/18
Office of the Washington State Auditor

City Response:

This letter correctly sets forth our understanding.


Joseph Scorcio, City Manager 10-3-18
Date

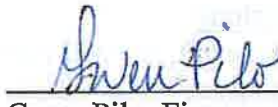

Gwen Pilo, Finance & Systems Director 10/03/18
Date

EXHIBIT A
2017-2018 Biennial Budget Amendment

Revenue

108 108.397.12.00.000

Transfers & Reimbursements
\$22,725
\$22,725

Transfers In - 001 Fund

Expenditures

<u>FUND #</u>	<u>To Acct #</u>
108	108.000.10.594.18.62.001
	108.000.10.518.21.41.000
	<i>Subtotal Building Management Fund (108)</i>
206	206.000.04.592.79.85.007
	<i>Subtotal 2009 LTGO Refunding Bond (206)</i>

2018 TOTAL Request
\$22,725
\$100,000
\$122,725
\$150
\$150

Description
City Hall Improvements
Professional Services

2009 Hotel/Motel Ref Debt Reg Costs

Grand Total - ALL FUNDS **\$122,875**

CITY OF SEATAC, WASHINGTON
2017-2018 BIENNIAL BUDGET: EXHIBIT B

2017-2018 BIENNIAL BUDGET (EXPENDITURES + ENDING BALANCES) = \$ 198,482,475				
FUND	BEGINNING BALANCE 2017-2018	REVENUES & OTHER SOURCES 2017-2018	EXPENDITURE APPROPRIATION 2017-2018	ENDING BALANCE 2017-2018
001 General Fund	\$ 17,471,668	\$ 74,098,954	\$ 78,761,561	\$ 12,809,060
102 Street Fund	11,176,559	17,868,396	19,176,822	9,868,133
105 Port ILA	1,270,323	1,405,000	1,558,456	1,116,867
106 Transit Planning	214,981	-	184,315	-
107 Hotel/Motel Tax	7,315,221	2,996,200	2,288,051	8,023,370
108 Building Management	2,547,333	2,941,394	1,846,599	3,642,128
110 Facility Repair & Replacement	429,170	1,206	430,376	-
111 Des Moines Creek Basin ILA	1,873,484	664,000	651,616	1,885,868
206 2009 LTGO Bond Fund	12,974	689,200	689,350	12,824
207 SCORE Bond Servicing	258,636	419,459	419,459	258,636
301 Municipal Capital Improvements	6,622,676	3,789,699	9,240,094	1,172,281
306 Municipal Facilities CIP	1,364,518	5,200	356,057	1,013,661
307 Transportation CIP	3,836,481	23,223,090	22,794,773	4,264,798
308 Light Rail Station Areas CIP	1,873,520	5,000	1,750,000	128,520
403 SWM Utility	3,354,416	7,497,169	6,315,567	4,536,018
404 Solid Waste & Environmental	-	550,200	550,200	-
501 Equipment Rental	1,291,408	1,445,608	1,598,515	1,138,501
TOTAL BIENNIAL BUDGET	\$ 60,913,366	\$ 137,599,775	\$ 148,611,811	\$ 49,870,664