



4800 South 188th Street
SeaTac, WA 98188-8605

City Hall: 206.973.4800
Fax: 206.973.4809
TDD: 206.973.4808

Mayor
Erin Sitterley

Deputy Mayor
Clyde Hill

Councilmembers
Rick Forschler
Joel Wachtel
Peter Kwon
Amina Ahmed
Pam Fernald

City Manager
Joseph Scorcio

City Attorney
Mary Mirante Bartolo

City Clerk
Kristina Gregg

December 7, 2018

Office of the Washington State Auditor
Building C, Suite 201
841 Central Ave. N.
Kent, WA 98031

To the Washington State Auditor's Office:

We are providing this letter in connection with your audit of City of SeaTac for the period from January 1, 2017 through December 31, 2017. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.

2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, such as HIPAA requirements, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to safeguard public resources and ensure compliance with applicable laws and regulations.
8. We have no knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others.
9. In accordance with RCW 43.09.200, all material events and transactions have been properly recorded in the financial records.
10. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.

Additional representations related to the financial statements:

11. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
12. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
13. The financial statements include financial information of the primary government and all component units, fiduciary and other activity required by generally accepted accounting principles to be included in the financial reporting entity.
14. The financial statements properly classify all funds and activities.

15. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.
16. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
17. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
18. Revenues are appropriately classified by fund and account.
19. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
20. Net position components (net investment in capital assets, restricted and unrestricted) are properly classified and, as applicable, approved.
21. Significant assumptions we used in making accounting estimates are reasonable.
22. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements, and other loss contingencies.
23. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
24. We acknowledge our responsibility for reporting supplementary information in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
25. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all

significant assumptions or interpretations underlying the measurement or presentation.

26. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.
27. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.
28. We believe there are no uncorrected misstatements that would be material individually and in the aggregate to each applicable opinion unit.
29. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.



Joseph Scorcio, City Manager



Gwen Pilo, Finance Director



Office of the Washington State Auditor

Pat McCarthy

Financial Statements Audit Report

City of SeaTac

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

Published (Inserted by OS)

Report No. (Inserted by OS)





Office of the Washington State Auditor

Pat McCarthy

Issue Date – (Issued by OS)

City Council
City of SeaTac
SeaTac, Washington

Report on Financial Statements

Please find attached our report on the City of SeaTac's financial statements.

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

Sincerely,

Signature Here (Please do not remove this line)

Pat McCarthy

State Auditor

Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of SeaTac

January 1, 2017 through December 31, 2017

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

Audit Period: January 1, 2016 - December 31, 2016	Report Ref. No.: 1020973	Finding Ref. No.: 2016-001
Finding Caption: The City's internal controls were not adequate to ensure all major funds were accurately reported on the financial statements, federal awards were accurately identified and managerial fund transfers were properly eliminated.		
Background: Finance department turnover significantly limited the available resources of key financial statement preparation positions, and adequate resources were not dedicated to internal controls over financial statement preparation and review. In 2016, we identified the following deficiencies in internal controls over financial reporting which represented a material weakness over financial reporting:		
<ul style="list-style-type: none"> • The City did not have adequate controls in place to ensure the results of the major fund calculation were incorporated into the financial statements. • Interdepartmental communication and financial statement review were not adequate to correctly report federal expenditures • Financial statement review was not adequate to detect an error made during the managerial fund roll-up process. 		
Status of Corrective Action: (check one)		
<input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: The reason for these errors is that the City was short staff in 2016 and throughout 2017 resulting in a lack of resources and time for efficient review of the statements. The City hired additional staff in late 2017. This additional staff will strengthen the internal control over the preparation and review of the financial statements.		

**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**

I-1

City of SeaTac
January 1, 2017 through December 31, 2017

Mayor and City Council
City of SeaTac
SeaTac, 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 discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2018.

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 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 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.

Signature Here (Please do not remove this line)

Pat McCarthy

State Auditor

Olympia, WA

December 7, 2018

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS**

F-1

City of SeaTac

January 1, 2017 through December 31, 2017

Mayor and City Council
City of SeaTac
SeaTac, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page {Inserted by OS}.

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 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, 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 discretely presented component unit, each major fund and the aggregate remaining fund information of the City of SeaTac, as of December 31, 2017, 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.

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 {financial section page number inserted by OS} 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 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 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.

Signature Here (Please do not remove this line)

Pat McCarthy

State Auditor

Olympia, WA

December 7, 2018

FINANCIAL SECTION

City of SeaTac January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

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– Street Fund – 2017
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- Schedule of Employer Contributions – PERS 1 – 2017
- Schedule of Employer Contributions – PERS 2/3 – 2017
- Schedule of Employer Contributions – LEOFF 1 – 2017

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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
City of SeaTac

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

Published (Inserted by OS)

Report No. (Inserted by OS)





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

Issue Date – (Inserted by OS)

City Council
City of SeaTac
SeaTac, 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,

Signature Here (Please do not remove this line)

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 SeaTac 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:

- General disbursements
- Small and attractive asset tracking
- Third-party cash receipting
- Cost allocation
- Municipal court – cash receipting, third-party cash receipting, non-cash adjustments, collections, trust accounts, system access, monthly audit reports, and state remittances
- Financial condition and sustainability
- Open public meeting minutes

RELATED REPORTS

Financial

Our opinion on the City's financial statements 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>.

INFORMATION ABOUT THE CITY

The City of SeaTac was incorporated on February 28, 1990, and is located midway between the cities of Seattle and Tacoma. The City provides its approximately 29,130 citizens with local government services including fire prevention and protection, police services, municipal court, storm water utility, community and economic development, parks and recreation, land use management and public works.

An elected, seven-member Council governs the City. The Council elects one of its members to serve as Mayor for a two-year term. In addition, the Council appoints management to oversee the City’s daily operations as well as its 132 full-time equivalent employees. For 2017, the City had an operating and capital budget of \$72.7 million.

Contact information related to this report	
Address:	City of SeaTac 4800 S. 188th Street SeaTac, WA 98188
Contact:	Gwen Pilo, Finance & Systems Director
Telephone:	(206) 973-4882
Website:	www.ci.seatac.wa.us

Information current as of report publish date.

Audit history

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

ABOUT THE STATE AUDITOR'S OFFICE

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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.

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Website	www.sao.wa.gov



Office of the Washington State Auditor

Pat McCarthy

Exit 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 independence 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 the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2017 through December 31, 2017 - see draft report.
- Financial statement for January 1, 2017 through December 31, 2017 - see draft report.

Audit Highlights

We would like to thank Gwen Pilo, Finance and System Manager, Christina McCall, Accounting Analyst, and City staff for their cooperation and timely response to our requests during the audit. We appreciate the City's commitment to fiscal accountability and accurate financial reporting.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Communications required by audit standards

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

- There were no uncorrected misstatements in the audited financial statements.
- There were no material misstatements in the financial statements corrected by management during the audit.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/saoportal/Login.aspx>

Management Representation Letter

We have included a copy of representations received from management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$66,950 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in approximately September 2019 and will cover the following general areas:

- Accountability for Public Resources – 2018
- Financial Statement – 2018

The estimated cost for the next audit based on our new rate effective January 1, 2019 is \$70,470 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

If expenditures of federal awards are \$750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal single audit requirements. Federal awards can include grants, loans, and non-cash assistance such as equipment and supplies.

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 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.

Questions?

Please contact us with any questions about information in this document or related audit reports.

Kelly Collins, CPA, Director of Local Audit, (360) 902-0091, Kelly.Collins@sao.wa.gov

Mark Rapozo, CPA, Assistant Director of Local Audit, (253) 593-2047 x111, Mark.Rapozo@sao.wa.gov

Sandra Groshong, Audit Manager, (253) 372-6250 x105, Sandra.Groshong@sao.wa.gov

Joe Ramos, Assistant Audit Manager, (253) 372-6250, Joseph.Ramos@sao.wa.gov

Sean Fitzgerald, Esq., Audit Lead, (253) 372- 6250, Sean.Fitzgerald@sao.wa.gov

