



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Shoreline

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

Published September 30, 2019

Report No. 1024777





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

September 30, 2019

Council
City of Shoreline
Shoreline, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Shoreline'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 cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Shoreline 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, 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 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 no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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 \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2018-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Shoreline

January 1, 2018 through December 31, 2018

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

Background

City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Inaccurate financial reports limit access to financial information used by City Council members, the public, state and federal agencies, and other interested parties.

Our audit identified deficiencies in controls that we consider a material weakness. These deficiencies hinder the City's ability to accurately present their financial statements. *Government Auditing Standards* requires that the auditor communicate a material weakness in internal controls as a finding.

Description of Condition

For fiscal year 2018, the City created a new process, using a spreadsheet, to help prepare the financial statements. The spreadsheet included formulas to help prepare certain account balances, including Net Investment in Capital Assets.

In addition, effective October 23, 2017, the City contracted with Ronald Wastewater District to take over the District's day-to-day operations. The City established the Wastewater Utility Fund to record the activities of District operations. The City invoices the District each quarter for budgeted operating costs. The money the City collects on behalf of the District is also taken into account. Annually, the City reconciles actual costs to budgeted costs in addition to money collected for the District. The difference between costs and money collected should be reported as either a Due to or Due from Other Governments. At year-end, the City determined it owed the District \$206,511.

We identified the following deficiencies in internal controls that represent a material weakness:

- The City did not dedicate sufficient time and resources to ensure the spreadsheet produced reports that were accurate, complete and free from errors.
- Although the City had procedures to perform a final review of the prepared financial statements, the review was not adequate to ensure balances appeared reasonable and that the City detected and corrected errors before audit.

Cause of Condition

The City was unaware of a formula error in the spreadsheet that was used to create the financial statements. The formula for reporting the Net Investment in Capital Assets, in the Internal Service Fund, used the wrong line items to calculate the balance.

Further, the City used the Due to Other Government and Due from Other Government accounts to capture the annual revenue and expense activities with Ronald Wastewater District. However, the accounts should include only activities that are due at year-end.

Effect of Condition

Net Investment in Capital Assets

As a result of the formula error, the City incorrectly reported Net Investment in Capital Assets of \$4,068,120 in the Internal Service Fund. The capital asset balance in the fund was only \$1,384,290, and there was no debt associated with the capital asset. Therefore, the most the City could have reported as Net Investment in Capital Asset was the capital asset balance of \$1.3 million.

As a result, Net Investment in Capital Assets was overstated by \$2,683,830 and Unrestricted Net Position was understated by the same amount.

Due to and Due from Other Governments

The City reported the annual revenue and expenditure activities between the City and Ronald Wastewater District as Due to and Due from Other Government accounts. However, these two accounts should represent amounts owed between the City and District at year-end and not the total activity for the year. This resulted in the following material classification errors:

- Due from Other Governments was overstated by \$1,683,110 in the Wastewater Utility Fund. This balance should have been \$0, because the District did not owe the City any payments at year-end.
- Due to Other Governments was overstated by \$1,683,110 in the General Fund. The City reported \$1,889,621 as a Due to Other Government; however, the City should have reported only \$206,511.

The City corrected the misstatements and received an unmodified opinion on the financial statements.

Recommendations

We recommend the City:

- Dedicate sufficient time and resources to ensure the spreadsheet produced reports that are accurate, complete and free from errors
- Perform an adequate final review of the financial statements to ensure balances appear reasonable.

City's Response

1) Net Investment in Capital Assets - Internal Service Fund

The City is committed to process improvement, and one that we implemented for the 2018 financial report is automating the statements, using a program that pulls account balances directly from the financial system into Excel templates. There is a substantial amount of set up work, but once completed, the process greatly reduces the risk of errors in translating g/l balances into the YE financial report. There was considerable testing and review that went into this transition with the recreation of 2017 financial statements and reconciliation of the statements produced from with new tool to the manually prepared statements from 2017. Despite our review efforts the internal service fund net position, while correct in total, was not accurately split between Net Investment in Capital Assets and Unrestricted. The 2018 statements were reviewed by 3 different individuals, but the error, in the lower right corner of the statement, was not identified.

With the new reporting tool in-place, staff anticipate being able to produce financial statements faster. This will afford additional time for review including comparison with prior years' statements at a more detailed line item level to identify issues such as this one, and the use of a 3-year trend analysis like that used by the Auditors to help identify other potential areas of concern. Additionally, now that the City is aware that changes can be made to the financial statements after

the May 30th deadline, but prior to the beginning of the audit, review can continue if necessary, to resolve any concerns identified during the review.

2) Due to and Due from Other Governments – Wastewater Enterprise Fund

Under the terms of the operating services agreement between Ronald Wastewater District and the City of Shoreline, the city performs the day to day operations of the district and pays most of the expenses generated by the operations. Originally, the City and the district anticipated that the district would provide funding on a quarterly basis, in advance, to fund the operations. However, after transition to the new operating structure, the city found that the amount of funds it was collecting on behalf of the district, accounted for as being due to RWD, offset a large portion of the operating expense. For this reason, it was not necessary to invoice the district quarterly for advance funds based on budgeted expenses, as the combination of the two would mean the city would have surplus funds. The city accounted for the amount due from the district for the operation of the wastewater utility under the terms of the operating agreement as revenue and due from the district (Due From). The funds being collected by the City on the district's behalf were accounted for separately as a liability/due to the district to ensure transparency, particularly should the district's Board of Commissioners question whether the district was receiving the full benefit of funds collected on its behalf (Due to). There is no dispute that the net amount is accurate, but the city believed reporting it as gross due to and due from provided this additional transparency, even though it was unusual in nature. The SAO determined that this was not acceptable, and the city has now netted the number to the actual amount due to the district as of year-end. This change made no impact to the Fund or City's net position.

For 2019's annual report, the City will report this activity as a net amount on the yearend report. However, the city will continue to track the amounts separately internally to ensure appropriate transparency and accountability.

Auditor's Remarks

We appreciate the steps the City is taking to resolve the issues. We will review the status of this finding during our next scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control describes the responsibilities of governments and their management regarding internal controls.

**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 Shoreline
January 1, 2018 through December 31, 2018**

Council
City of Shoreline
Shoreline, 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, each major fund and the aggregate remaining fund information of the City of Shoreline, 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 September 30, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

September 30, 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 Shoreline
January 1, 2018 through December 31, 2018**

Council
City of Shoreline
Shoreline, Washington

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

We have audited the compliance of the City of Shoreline, 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.

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.

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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 style with a large initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

September 30, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Council
City of Shoreline
Shoreline, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shoreline, 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 20.

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, each major fund and the aggregate remaining fund information of the City of Shoreline, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, 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 20 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.

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 September 30, 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.



Pat McCarthy
State Auditor
Olympia, WA

September 30, 2019

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Activities – 2018

Balance Sheet – Governmental Funds – 2018

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

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – General Fund – 2018

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – General Fund Reconciliation – 2018

Statement of Net Position – Proprietary Funds – 2018

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

Statement of Cash Flows – Proprietary Funds – 2018

Statement of Net Position – Fiduciary Funds – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer
Contributions – PERS 1 – 2018

Schedule of Proportionate Share of the Net Pension Liability and Schedule of Employer
Contributions – PERS 2/3 – 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 Shoreline
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).

Finding ref number: 2018-001	Finding caption: The City’s internal controls over accounting and financial reporting were inadequate to ensure financial statements were accurate and complete.
Name, address, and telephone of City contact person: Sara Lane City of Shoreline 17500 Midvale Avenue N. Shoreline, WA 98133	
Corrective action the auditee plans to take in response to the finding: <i>1) Net Investment in Capital Assets - Internal Service Fund</i> <i>The City is committed to process improvement, and one that we implemented for the 2018 financial report is automating the statements, using a program that pulls account balances directly from the financial system into Excel templates. There is a substantial amount of set up work, but once completed, the process greatly reduces the risk of errors in translating g/l balances into the YE financial report. There was considerable testing and review that went into this transition with the recreation of 2017 financial statements and reconciliation of the statements produced from with new tool to the manually prepared statements from 2017. Despite our review efforts the internal service fund net position, while correct in total, was not accurately split between Net Investment in Capital Assets and Unrestricted. The 2018 statements were reviewed by 3 different individuals, but the error, in the lower right corner of the statement, was not identified.</i> <i>With the new reporting tool in-place, staff anticipate being able to produce financial statements faster. This will afford additional time for review including comparison with prior years’</i>	

statements at a more detailed line item level to identify issues such as this one, and the use of a 3-year trend analysis like that used by the Auditors to help identify other potential areas of concern. Additionally, now that the City is aware that changes can be made to the financial statements after the May 30th deadline, but prior to the beginning of the audit, review can continue if necessary, to resolve any concerns identified during the review.

2) Due to and Due from Other Governments – Wastewater Enterprise Fund

Under the terms of the operating services agreement between Ronald Wastewater District and the City of Shoreline, the city performs the day-to-day operations of the district and pays most of the expenses generated by the operations. Originally, the City and the district anticipated that the district would provide funding on a quarterly basis, in advance, to fund the operations. However, after transition to the new operating structure, the city found that the amount of funds it was collecting on behalf of the district, accounted for as being due to RWD, offset a large portion of the operating expense. For this reason, it was not necessary to invoice the district quarterly for advance funds based on budgeted expenses, as the combination of the two would mean the city would have surplus funds. The city accounted for the amount due from the district for the operation of the wastewater utility under the terms of the operating agreement as revenue and due from the district (Due From). The funds being collected by the City on the district's behalf were accounted for separately as a liability/due to the district to ensure transparency, particularly should the district's Board of Commissioners question whether the district was receiving the full benefit of funds collected on its behalf (Due to). There is no dispute that the net amount is accurate, but the city believed reporting it as gross due to and due from provided this additional transparency, even though it was unusual in nature. The SAO determined that this was not acceptable, and the city has now netted the number to the actual amount due to the district as of year-end. This change made no impact to the Fund or City's net position.

For 2019's annual report, the City will report this activity as a net amount on the yearend report. However, the city will continue to track the amounts separately internally to ensure appropriate transparency and accountability. This will not be an issue for Financial Statements after 2020, as the City will absorb the wastewater district completely in 2020.

Anticipated date to complete the corrective action: 6/30/3020

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

