

Washington State Auditor's Office

Financial Statements Audit Report

City of Seattle
King County

Audit Period
January 1, 2009 through **December 31, 2009**

Report No.

Issue Date

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

Issue Date – (Issued by OS)

Mayor and City Council
City of Seattle
Seattle, Washington

Report on Financial Statements

Please find attached our report on the City of Seattle'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)
BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
January 1, 2009 through December 31, 2009

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Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2009 through December 31, 2009

1. The City of Seattle's internal controls over financial statement preparation are inadequate.

Description of Condition

Cause of Condition

Effect of Condition

Recommendation

City's Response

Auditor's Remarks

Applicable Laws and Regulations

Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2009 through December 31, 2009

2. We were notified that the SCERS auditors plan to report significant deficiency in internal controls over investment monitoring and evaluation, and over financial closes and reporting processes.

The issues reported in 2008 audit are repeated but at lower level as significant deficiency.

Description of Condition

Cause of Condition

Effect of Condition

Recommendation

City's Response

Auditor's Remarks

Applicable Laws and Regulations

Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2009 through December 31, 2009

3. We were notified that SPU auditors plan to report significant deficiency in internal control over management's preparation of estimates used in financial reporting.

Description of Condition

Cause of Condition

Effect of Condition

Recommendation

City's Response

Auditor's Remarks

Applicable Laws and Regulations

Status of Prior Audit Findings

City of Seattle
King County
January 1, 2009 through December 31, 2009

The status of findings contained in the prior years' audit reports of the City of Seattle is provided below:

1. The City of Seattle's internal controls over financial statement preparation are inadequate.

Report No. 32347, dated September 9, 2009

Background

The Department of Transportation does not use the City's general ledger accounting system as the basis for its financial reporting, the Department of Executive Administration is not able to have consistent citywide internal controls over financial statement preparation and is left to develop transportation-specific, manual internal controls for which reliability depends on the specialized knowledge of its employees.

The finding focused on financial accounting at the Seattle Department of Transportation and reported the City's inability to perform an automated year-end closing process and directly produce consolidated financial statements as would normally be expected from such systems.

Status

The City has started a project to standardize use of its citywide financial system to enhance, among other things, internal controls over preparation of financial statements. Until the project is completed, the Department has updated its internal procedures and implemented additional controls.

The State Auditor notes that the seemingly comprehensive project has suffered significant delays and we recommend giving sufficient priority to its completion.

2. The Seattle Department of Transportation's internal controls over reporting grant revenue and expenses are inadequate.

Report No. 32347 dated September 9, 2009

Background

The Department recorded federal expenditures before securing a grant. The Department also recorded related grant revenue and grant reimbursement receivables at the same time.

Status

The Department has updated its accounting procedures to clarify conditions that must exist in order to accrue grant revenues and expenditures within the 60 day period. In addition, the Department has implemented quarterly reconciliation and review

procedures and processes over grant revenues and expenditures to ensure accuracy of the year-end SEFA report.

3. The City inappropriately omitted federal funds from its Schedule of Expenditures of Federal Awards.

Report No. 32347 dated September 9, 2009

Background

Employees responsible for reporting federal expenditures lacked a full understanding of Circular A-133 reporting requirements. In this case, loans were omitted because the SEFA preparation process does not include review of outstanding federal loans.

Status

The City updated our procedures to include verification of federal loan transactions and balances to ensure proper reporting in the SEFA. HUD was informed about the omission of federal loans in the 2007 SEFA and the agency confirmed that they do not require a specific audit of those transactions.

The State Auditor again reports significant deficiency over financial statement preparation in the current audit.

4. The Seattle City Employees Retirement System's internal controls over investments and financial statements were inadequate.

Report No. 32347 dated September 9, 2009

Background

Other auditors reported a material weakness in internal controls as the System did not accurately, reliably and timely account for the value of its investments in the general ledger. Further, the System does not maintain an adequate internal control structure governing the year-end financial closing and reporting processes.

Status

The System created and filled two new management positions to augment the oversight and controls over investments, financial reporting and pension operations functions.

The other auditors again report significant deficiency in internal control. The State Auditor notes that one of the positions is now vacant and we recommend timely filling of the vacancy to avoid repeat of previously reported conditions.

5. The Seattle City Light Department's internal controls over inventory are inadequate.

Report No. 32347 dated September 9, 2009

Background

Other auditors noted concerns related to the timeliness and accuracy of inventory adjustment documentation given to the Cost Accounting Unit and adjustments in the inventory system lack sufficient supporting documentation and appear to be recorded to merely reconcile the balance to the general ledger.

Status

City Light implemented a number of improvements to address inventory issues in 2009. A status review at the end of September noted that cycle count variances had been significantly reduced, salvage returns had improved, and the need for inventory adjustments had been substantially reduced.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

I-1

City of Seattle

King County

January 1, 2009 through December 31, 2009

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2010. Our report is modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Light Fund, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditors' testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of those other auditors, is based solely on the reports of the other auditors. Other auditors also audited the financial statements of the Water, Drainage and Wastewater, and Solid Waste funds and the Seattle City Employees Retirement System, as described in our report on the City's financial statements. Those funds were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Findings 1, 2 and 3, that we consider to be significant deficiencies in internal control over financial reporting. 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Mayor and City Council. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

June 28, 2010

Independent Auditor's Report on Financial Statements

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City of Seattle

King County

January 1, 2009 through December 31, 2009

Mayor and City Council

City of Seattle

Seattle, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed on page { }. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following funds:

- The Light Fund, Water Fund and Drainage and Wastewater Fund, which are major funds that collectively represent 96 percent, 100 percent and 88 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The financial statements of the Solid Waste Fund, which represent 3 percent, 1 percent and 10 percent, respectively, of the assets, net assets and revenues of the business-type activities, and 6 percent, 1 percent and 15 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component unit and remaining fund information.
- The financial statements of the Seattle City Employees' Retirement System, which represent 70 percent, 88 percent and 36 percent, respectively, of assets, net assets and revenues of the aggregate discretely presented component unit and remaining fund information.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Light, Water, Solid Waste, and Drainage and Wastewater funds and the Seattle City Employees' Retirement System are based solely on the reports of the other auditors. The partial prior year comparative information has been derived from the City's 2008 financial statements and, in our report dated July 30, 2009, based on our audit and the reports of other auditors, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information.

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 of material misstatement. The financial statements of the Water, Solid Waste, and Drainage and Wastewater funds and the Seattle City Employees' Retirement System were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and on the reports of other auditors, 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 discretely presented component units and remaining fund information of the City of Seattle, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages [page # to be inserted by OS] through [page # to be inserted by OS], pension trust fund on pages [page # inserted by OS] through [page # inserted by OS], and budgetary comparison on pages [page # inserted by OS] through [page # inserted by OS] are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Signature Here (Please do not remove this line)
BRIAN SONNTAG, CGFM
STATE AUDITOR

June 28, 2010

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Financial Section

City of Seattle
King County
January 1, 2009 through December 31, 2009

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009

Statement of Activities – 2009

Balance Sheet – Governmental Funds – 2009

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2009

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2009

Statement of Net Assets – Proprietary Funds – 2009

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2009

Statement of Cash Flows – Proprietary Funds – 2009

Statement of Net Assets – Fiduciary Funds – 2009

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2009

Notes to Financial Statements – 2009

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2009

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Transportation Fund – 2009

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Low-Income Housing Fund – 2009

Pension Plan Information – Schedule of Funding Progress – 2009

Pension Plan Information – Schedule of Employer Contributions – 2009

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2009

Notes to Schedule of Expenditures of Federal Awards – 2009