



# Office of the Washington State Auditor

Pat McCarthy

## **Exit Conference: City of Des Moines**

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 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, 2019 through December 31, 2019 – see draft report.
- Financial statement audit for January 1, 2019 through December 31, 2019 - see published report.

### **Audit Highlights**

We would like to thank Beth Anne Wroe, Shawn Hunstock, and City staff for their cooperation and timely responses to our audit requests.

We appreciate the City's ongoing commitment to transparency and accountability.

### **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:

- Uncorrected misstatements in the audited financial statements are summarized on the City's management representation letter included below. We agree with management's representation that these misstatements are immaterial to the fair presentation of the 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/>

### **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 \$62,000, plus estimated charges for travel time of \$4,000. Actual audit costs will be closer to \$67,000 due to our Parks, Recreation, and Senior Services review.

### **Your Next Scheduled Audit**

Your next audit is scheduled to be conducted in May 2020 and will cover the following general areas:

- Accountability for Public Resources
- Financial Statement including Comprehensive Annual Financial Report Opinion Letter
- Federal Programs

The estimated cost for the next audit based on current rates is \$72,000, plus estimated travel expenses of \$4,600. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

## **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.

### **The Center for Government Innovation**

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public

servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at [Center@sao.wa.gov](mailto:Center@sao.wa.gov).

### **Questions?**

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

**Kelly Collins, CPA, Director of Local Audit, (564) 999-0807, [Kelly.Collins@sao.wa.gov](mailto:Kelly.Collins@sao.wa.gov)**

**Mark Rapozo, CPA, Assistant Director of Local Audit, (564) 999-0794, [Mark.Rapozo@sao.wa.gov](mailto:Mark.Rapozo@sao.wa.gov)**

**Alexander Behrndt, CPA, Audit Manager, (253) 372-6251, [Alexander.Behrndt@sao.wa.gov](mailto:Alexander.Behrndt@sao.wa.gov)**

**Sean Fitzgerald, Esq., Assistant Audit Manager, (253) 365-3348, [Sean.Fitzgerald@sao.wa.gov](mailto:Sean.Fitzgerald@sao.wa.gov)**

**Brandi Breaux, CFE, Audit Lead, (253) 372-6250, [Brandi.Breaux@sao.wa.gov](mailto:Brandi.Breaux@sao.wa.gov)**

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

# Accountability Audit Report

## City of Des Moines

For the period January 1, 2019 through December 31, 2019

Published (Inserted by OS)

Report No. 1027336





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

Issue Date – (Inserted by OS)

Mayor and City Council  
City of Des Moines  
Des Moines, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is 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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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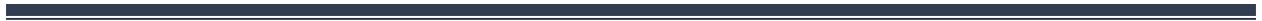
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## AUDIT RESULTS

### Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the City could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of the City of Des Moines from January 1, 2019 through December 31, 2019.

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 obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Parks, Recreation, and Senior Services department review
- Cash receipting – timeliness and completeness of deposits, sequential receipt numbering, and voids and adjustments in the Community Development and Courts departments
- Accounts receivables – billings and collections of licenses and permits at the Community Development department
- Accounts payable – EFT disbursements

- Open public meetings – documentation of minutes, executive sessions and special meetings
- Financial condition

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### 2019-001 The City did not have adequate internal controls over cash receipting in the Parks, Recreation and Senior Services Department.

#### *Background*

The City receipts payments at several decentralized locations including the City's Parks, Recreation and Senior Services Department. The Department receipted \$1,578,764.31 in 2019. City management is responsible for designing, implementing, and maintaining internal controls to provide reasonable assurance public resources are safeguarded against misappropriation or loss.

The Des Moines Legacy Foundation was established in 1999 as a non-profit 501(c)(3) for the purpose of supporting Des Moines' Parks, Recreation and Senior Services programs and facilities. The Foundation also raised funds to support the City's Bench Fund Memorial Program and Des Moines Arts Commission. The Foundation has two Board members who were senior employees of the City's Parks, Recreation, and Senior Services Department.

As of June 30, 2018, the Foundation retained \$15,000 for the bench program and \$33,400 for the arts commission.

#### *Description of Condition*

The former Parks, Recreation and Senior Services Director, as well as the former Parks, Recreation and Senior Services Manager, were also Foundation board members. The former Manager instructed Department staff to deposit donations made to City programs into the Foundation's bank account.

The City's internal controls over cash receipting were not sufficient to detect or prevent a diversion of public funds to a separate, independent entity. Specifically, the City did not perform an independent review of department cash receipts to ensure all amounts collected were deposited in the City's bank account.

#### *Cause of Condition*

The City did not have procedures in place to assess and monitor the former employee's conflicts of interest in the Parks, Recreation and Senior Services Department. In addition, the City did not have adequate independent oversight over Parks, Recreation, and Senior Services cash receipts.

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### ***Effect of Condition***

Inadequate internal controls over the City’s cash receipting activities and lack of proper oversight increase the risk that a loss or misappropriation of public funds could occur and not be detected by management quickly, if at all. Specifically, we identified 33 checks, totaling \$8,140, made out to the City that were deposited into a Des Moines Legacy Foundation bank account.

### ***Recommendation***

We recommend the City:

- Assess and monitor actual and potential conflicts of interest
- Perform an independent reconciliation of Parks, Recreation, and Senior Services cash receipts
- Recover the \$8,140 of public funds deposited into the Des Moines Legacy Foundation’s bank account.

### ***City’s Response***

*The City of Des Moines appreciates the opportunity to respond to this finding. We would also like to thank the audit staff for their open dialogue and communications throughout the audit.*

*As background, a new City Administration began management of the City in late 2016. One of the key expectations of this Administration was to break down the silo structure of City Hall departments. During this process, City Administration encountered resistance from the Parks, Recreation and Senior Services (PRSS) Director and Senior Services Manager to respond to requests for information regarding department operations.*

*In January of 2018, the City began planning the transition process for the PRSS Department following the retirement announcements of the Department Director and Senior Services Manager. These retirements were both scheduled for the end of June of 2018.*

*The City began identifying job duties and current practices in the PRSS Department to ensure that a succession plan was in place and that the inevitable transition would be conducted smoothly. This process involved ongoing job shadowing of PRSS employees by an experienced City employee who had a background in parks and recreation services, as well as interviews conducted with PRSS employees. During the succession planning process, the City identified a number of areas that raised serious concerns regarding activities in the PRSS Department, including the*

*conflict of interest that has been identified in this Finding between the retiring PRSS employees and the Des Moines Legacy Foundation (DMLF).*

*Additional information was obtained during this initial review that found credible evidence that donations and other funds that were intended for the City were being intentionally diverted to the DMLF by these former employees. As a result, the City promptly self-reported this information to the State Auditor's Office as required by state law. Additionally, the City reported these issues to its insurance carrier and obtained a referral for an outside third party expert to conduct an investigation into what had occurred and how to make necessary corrections.*

*Based on the independent investigation that was conducted as well as the State Auditor's Finding, the City concedes that the City's internal controls over cash receipting in the PRSS Department were historically not sufficient to detect or prevent a diversion of public funds to a separate, independent entity.*

*Additionally, the City concedes that, at the time, there were no procedures in place to assess and monitor employee's conflicts of interest in the Parks, Recreation and Senior Services Department and that the City did not have adequate independent oversight over Parks, Recreation, and Senior Services cash receipts.*

*Prior to initiation of this investigation in 2018, City Administration and the City Council were unaware of the degree of the actions that are the subject of this finding. Immediately upon gaining awareness, the City self-reported these actions to the State Auditor and took prompt and determined actions to remedy them.*

*The City understands its responsibilities to have adequate controls and procedures over cash receipting and began implementing immediate changes upon discovery of the above issues. These actions include:*

*New controls, procedures and training have been implemented to assure proper handling of funds in the PRSS Department.*

*Staff in the PRSS Department received additional direction and training regarding proper procedures for cash handling as well as other financial matters.*

*All PRSS program expenses and revenues are now processed through the City accounting system and accounted for in the City Council approved budget.*

*The City continues to regularly monitor PRSS Department expenses, revenue, and money-handling to assure use of best financial practices.*

*City employees are no longer authorized to work on non-profit events on City time in order to avoid potential conflicts of interest. Authorization letters that allowed this practice have been revoked.*

*Formal agreements are now required when the City or PRSS Department partners with any non-profit or other entity for events, programs, or other purposes. The agreements clearly set forth the responsibilities of the parties, including financial responsibilities, and are approved by the City Manager or the City Council.*

*The State Auditor has identified \$8,140 of public funds wrongfully deposited into the Des Moines Legacy Foundation's bank account. Additionally, the independent review that was conducted found additional instances where funds for City programs that should have been received by the City were diverted to the DMLF, without proper authorization or justification. In order to remedy these issues, the City received \$64,225 from the DMLF in 2020 and is currently in negotiations regarding additional sums held by the DMLF.*

### ***Auditor's Remarks***

We thank City officials and personnel for their assistance and cooperation during this audit. We will review the corrective action taken during our next audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200 – Local government accounting – Uniform system of accounting

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.3, Internal Control

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.6.1, Cash Receipting

## 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>.

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## INFORMATION ABOUT THE CITY

The City of Des Moines serves approximately 31,580 citizens in south King County. The City has a council-manager form of government.

The seven Council Members are elected to staggered, four-year terms. Every two years, the Council selects one of its members as Mayor. The City's 2019 general operating expenditures were approximately \$38.4 million. Approximately 195 full and part-time employees provide police, community development, parks and recreation, engineering, streets, surface water management, Municipal Court and certain administrative services. The City also operates a marina on Puget Sound. Other entities provide additional services such as fire, emergency medical, water, sewer, solid waste and library.

### Contact information related to this report

Address:	City of Des Moines 21630 11th Avenue S. Des Moines, WA 98188
Contact:	Shawn Hunstock, Deputy Finance Director
Telephone:	(206) 870-6510
Website:	<a href="http://www.desmoineswa.gov">www.desmoineswa.gov</a>

*Information current as of report publish date.*

### Audit history

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

## 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.

<b>Contact information for the State Auditor’s Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>



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

**Financial Statements Audit Report**  
**City of Des Moines**

**For the period January 1, 2019 through December 31, 2019**

**Published August 6, 2020**

**Report No. 1026775**





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

August 6, 2020

Mayor and City Council  
City of Des Moines  
Des Moines, Washington

**Report on Financial Statements**

Please find attached our report on the City of Des Moines financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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**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 Des Moines  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Des Moines  
Des Moines, 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 Des Moines, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2020.

As discussed in Note 18 to the financial statements, in February 2020, a state of emergency was declared which could have a negative financial effect on the City.

**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.



Pat McCarthy  
State Auditor  
Olympia, WA

July 30, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Des Moines January 1, 2019 through December 31, 2019

Mayor and City Council  
City of Des Moines  
Des Moines, 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 Des Moines, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

#### 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.

## **Opinions**

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 Des Moines, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general and development funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 18 to the financial statements, in February 2020, a state of emergency was declared which could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

## **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 9 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 July 30, 2020 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

July 30, 2020

## FINANCIAL SECTION

### City of Des Moines January 1, 2019 through December 31, 2019

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds – 2019

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2019

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2019

General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary and Actual – 2019

Development Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary and Actual – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Notes to the Financial Statements – 2019

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes to Total OPEB Liabilities and Related Ratios – LEOFF1 OPEB Plan – 2019

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2 – 2019

Schedule of Employers Contributions - PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2 – 2019

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>

# City of Des Moines



21630 11<sup>th</sup> AVENUE S, SUITE A  
DES MOINES, WASHINGTON 98198-6398  
(206) 878-4595 T.D.D: (206) 824-6024 FAX: (206) 870-6540



December 3, 2020

Office of the Washington State Auditor  
841 Central Avenue North  
Kent, Washington 98032

To the Office of the Washington State Auditor:

**We re-affirm the representations made in our previous letter dated July 30, 2020 up to the date of this letter**, which was provided to you in connection with your audit of the City of Des Moines for the period from January 1, 2019 through December 31, 2019.

We confirm again, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, those representations made to you during your audit and included in our previous letter as referred to above.

If we subsequently discover information that would change our representations related to this audit, we will notify you in a timely manner.

Michael Matthias, City Manager

Beth Anne Wroe, Finance Director

# City of Des Moines



21630 11<sup>th</sup> AVENUE S, SUITE A  
DES MOINES, WASHINGTON 98198-6398  
(206) 878-4595 T.D.D: (206) 824-6024 FAX: (206) 870-6540



July 30, 2020

Office of the Washington State Auditor  
841 Central Avenue North  
Kent, WA 98032

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of City of Des Moines for the period from January 1, 2019 through December 31, 2019. 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, 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 provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
  8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
  9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records, notwithstanding immaterial uncorrected items referenced below.

**Additional representations related to the financial statements:**

10. 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.

11. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
12. 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.
13. The financial statements properly classify all funds and activities.
14. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.
15. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
16. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
17. Revenues are appropriately classified by fund and account.
18. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
19. Net position components (net investment in capital assets, restricted and unrestricted) and fund balance components (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, as applicable, approved.
20. Significant assumptions we used in making accounting estimates are reasonable.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. We believe the effects of uncorrected financial statement misstatements summarized below, both individually and in the aggregate, to each applicable opinion unit.
27. 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.
28. We acknowledge our responsibility for presenting Comprehensive Annual Financial Report combining statements and supplemental schedules in accordance with generally accepted accounting principles in the United States. We believe that combining statements and supplemental schedules are fairly presented, including both form and content, in accordance with those principles.
29. We have disclosed to you all significant changes to the methods of measurement and presentation of combining statements and supplemental schedules, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the combining statements and supplemental schedules.

30. We considered the qualifications of the WA Office of the State Actuary (OSA) to create an electronic tool for determining the City's liability for LEOFF 1 other post-employment benefits (OPEB) under the GASB 75 alternative method and agree with the results of the electronic tool, which are reflected in financial statement amounts and disclosures. In using the tool, we input correct and complete information into the electronic spreadsheet, and did not enter any inaccurate information with respect to the amounts or assumptions, or modify cells in the OSA spreadsheet, in an attempt to change the outcome of the calculation. Further, we are not aware of any other external matters that would have had an impact on the appropriateness of using the alternative method or assumptions used by the OSA's tool. We confirm that we are a LEOFF 1 employer and we had fewer than 100 plan members (active and retired) as of the beginning of the reporting period and are, therefore, eligible to use the tool.



Michael Matthias, City Manager



Beth Anne Wroe, Finance Director

Description	Statement / Schedule
<p>For pension balances, we noted the following misstatements:</p> <ul style="list-style-type: none"> <li>·Net Pension liability - Overstated by \$8,732</li> <li>·Deferred outflows - Overstated by \$18,727</li> <li>·Deferred inflows - Overstated by \$18,252</li> <li>Pension expense – overstated by \$26,349</li> </ul>	Statement of net position
<p>The City reported its total OPEB liability entirely as a non-current liability. The City should have reported a current OPEB liability of \$67,944 and a non-current OPEB liability of 2,117,675.</p>	Statement of Net Position
<p>The PSERS 2 figures in the sensitivity table in the pension note were incorrectly calculated. The amounts reported were \$373,619, (\$36,190), and \$358,129, but should be \$45,140, (\$4,372), and (\$43,268), respectively.</p> <p>Pension expense incorrect for the following plans:</p> <p>PERS 1 listed as \$182,917, should be \$185,241, understatement of \$2,325</p> <p>PERS 2/3 listed as \$153,182, should be \$152,785, overstatement of 397</p> <p>PSERS 2 listed as \$7,802, should be \$7,760, overstatement of \$43</p> <p>LEOFF 2 listed as \$83,899, should be \$55,665, overstatement of \$28,234</p> <p>Total pension expense was overstated by \$26,349.</p>	Financial statement notes
<p>The City understated its depreciation expense by \$12,400 due to correcting prior year depreciation expense calculation errors.</p>	Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds
<p>The City understated its depreciation expense by \$1,040 due to correcting prior year depreciation expense calculation errors.</p>	Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds
<p>City overstated its leasehold tax revenues by \$9,534.</p>	Statement of Revenues, Expenditures, and Changes in Fund Balances
<p>City understated its general fund tax receivables by \$44,451.</p>	Balance Sheet
<p>City understated its hotel/motel fund tax receivables by \$6,087.</p>	Combining Balance Sheet
<p>GASB 68 RSI: City misstated state's proportionate share of the net pension liability, an understatement of \$70,943.</p>	Schedule of Proportionate Share of Net Pension Liability
<p>City overstated its general fund unavailable revenue by 10,112</p>	Balance Sheet

<p>The MD&amp;A should direct readers desiring more detailed information on long-term debt activity to the relevant disclosures in the notes to the financial statements (refer to the note title, note number, or page number). GFOA Comment.</p>	<p>MD&amp;A</p>
<p>The MD&amp;A condensed net position is recorded in thousands. The Statement of Net Position does not have that designation. Therefore we would expect to times the numbers in the MD&amp;A to tie to the financial statement.</p>	<p>MD&amp;A</p>
<p>The City should remove (0) from Miscellaneous revenues Governmental Activities.</p>	<p>Governmental Activities</p>
<p>Note 1C, SSAP/Measurement Focus... On page 38 the City states that the revenues available 60 days after year end are considered available; however, on page 39 it discloses that taxes remaining uncollected at the yearend are considered unavailable.</p>	<p>Financial statement notes</p>
<p>Note 4A, Deposits and Investments. The City does not split their investments into the hierarchy. There is only the definition of the Levels. Would recommend reviewing Note X – Deposits and Investments in BARS.</p>	<p>Financial statement notes</p>
<p>Note 5, Receivables. The accounting/reporting treatment for property taxes (below tax calendar) is incorrect. There is no longer a deferred revenue recognized in connection with taxes. Please refer the City to the Property Tax note disclosure in the BARS manual.</p>	<p>Financial statement notes</p>
<p>Note 11 Long term Debt. The City should refer to Total OPEB liabilities not obligation. We would expect that there would be a current portion of Total OPEB liabilities.</p>	<p>Financial statement notes</p>
<p>Schedule of Employer Contributions - Since LEOFF 1 one is all zero the table can be removed.</p>	<p>Schedule of Employer Contributions</p>