



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: City of Shoreline

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

The City has the following reports:

- Accountability audit for January 1, 2021 through December 31, 2022 – see draft report.
- Financial statement and federal grant compliance audits for January 1, 2022 through December 31, 2022 – published January 11, 2024.

Audit Highlights

- We would also like to thank City staff for their cooperation and timely responses to our requests during the audit. Particularly, finance staff who made every effort to coordinate with other departments to ensure auditors received needed information timely.
- We would also like to thank the City for its commitment to fiscal accountability.

Recommendations not included in the Audit Reports

Management Letters

Management letters communicate control deficiencies, noncompliance, or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. Management letters are referenced, but not included, in the audit report.

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance 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.

Financial Statement Audit Communication

We would like to bring the following to your attention:

- Our audit found deficiencies in internal controls over financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding.

- Uncorrected misstatements in the audited financial statements are summarized on the attached schedule. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements. However, the conditions that led to these misstatements may result in more significant misstatements if not corrected.
- The audit addressed the following risks, which required special consideration:
 - Due to the possibility that management may be able to circumvent certain controls, standards require the auditor to assess the risk of management override.
 - Implementation of GASB 87

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you 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 \$137,600 and actual audit costs will be approximately \$140,400 due to additional work performed on the financial and accountability audits.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in June 2024 and will cover the following general areas:

- Accountability for public resources
- Financial statement
- Federal programs

The estimated cost for the next audit based on current rates is \$122,500 plus travel expenses. 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 at the Office of the Washington State Auditor offers 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 process improvement, 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.

Questions?

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

Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807, Kelly.Collins@sao.wa.gov

Wendy Choy, Assistant Director of Local Audit, (425) 502-7067, Wendy.Choy@sao.wa.gov

Haji Adams, Audit Manager, (425) 900-5277, Haji.Adams@sao.wa.gov

Angela Funamori, Audit Supervisor, (206) 613-7633, Angela.Funamori@sao.wa.gov

Katrina Choi, Audit Lead, (425) 900- 5351, Katrina.Choi@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

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Accountability Audit Report

City of Shoreline

For the period January 1, 2021 through December 31, 2022

Published (Inserted by OS)

Report No. (Inserted by OS)



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

March 18, 2024

Mayor and City Council
City of Shoreline
Shoreline, 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 value your cooperation during the audit.

Sincerely,

Signature Here (Please do not remove this line)

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.

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AUDIT RESULTS

Results in brief

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

However, we noted certain matters related to electronic payroll payments addressed in the management letter that we communicated to City management and the Mayor and City Council in a letter dated . We appreciate the City's commitment to resolving those matters.

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 Shoreline from January 1, 2021 through December 31, 2022.

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 Washington 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 years ended December 31, 2022 and 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Self-insurance with unemployment compensation
- Use of restricted funds – acquisition of properties
- Cash receipting – timeliness and completeness of deposits, voids and adjustments
- Accounts payable – general disbursements, credit cards, electronic funds transfers
- Compliance with public work projects – prevailing wages, change orders, retainage requirements

- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

RELATED REPORTS

Financial

Our opinion on the City's financial statements and compliance with federal grant program requirements 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>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding misclassification of various material financial balances.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Shoreline, incorporated in November 1995, serves a population of 56,980 citizens in King County. The City provides community and economic development, public works, parks and recreational services, and utility services such as garbage, surface water, and wastewater services. It contracts with King County for police services. Separate agencies provide fire protection and water services.

An elected, seven-member Council governs the City. The Council selects one of its Members to serve as Mayor for a two-year term. The Council appoints a Manager to oversee the City’s daily operations as well as its 201.48 full-time employees. For fiscal year 2022, the City operated on an annual budget of approximately \$171.32 million.

Contact information related to this report	
Address:	City of Shoreline 17500 Midvale Ave N Shoreline, WA 98133-4905
Contact:	Shauna Murphy, Finance Manager
Telephone:	(206) 801-2311
Website:	http://www.shorelinewa.gov/

Information current as of report publish date.

Audit history

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

ABOUT THE STATE AUDITOR’S OFFICE

The State Auditor’s Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor’s Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



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

March 18, 2024

City Council and City Manager
City of Shoreline
17500 Midvale Ave N
Shoreline, WA 98133

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the City of Shoreline from January 1, 2021 through December 31, 2022. We believe our recommendations will assist you in improving the City's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (425) 900-5277.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Haji Adams, Audit Manager

Attachment

Management Letter

City of Shoreline

January 1, 2021 through December 31, 2022

Electronic payments

Since 2016, Washington's governments have reported more than \$30 million of lost public funds as a result of cyberfraud, which includes phishing, spearfishing, or business email compromise schemes. In these schemes, an external threat actor contacts the government, appearing to be a known source—an employee, upper-level manager, vendor or other business associate. Government staff are convinced to redirect valid payments to the external threat actor, or to purchase gift cards and provide them with the card numbers.

It is imperative that governments implement robust internal controls over all disbursements. This includes establishing a verification process for all requests to change an employee's or vendor's contact and payment information, as well as any requests to purchase gift cards, especially when they come through email, phone, fax or another electronic method.

The City spent about \$15.6 million in payroll in fiscal year 2022. The City is responsible for establishing effective controls over electronic payments, including the payment information on file for vendors and employees, to protect electronic payments from internal and external threats.

Our audit found the City did not have adequate internal controls over electronic payments to protect public funds. Specifically, in 2022, the City reported a phishing incident related to misappropriation of public funds. The City made one payroll payment totaling \$2,622 to a fraudulent bank account.

We examined the City's controls over electronic payroll payments and found:

- The City did not have a policy or practice requiring sufficient verification for all bank change requests to make sure they were made by the actual employee.
- The City has not adopted policies over electronic funds transfer (EFT) transactions that contain the required elements prescribed in the *Budgeting, Accounting and Reporting System* (BARS Manual), section 3.8.11.30.

We recommend the City:

- Develop written policies and procedures over electronic payroll payments to require adequate verification of bank account changes with vendors and employees. The policies should include the required elements prescribed in the BARS Manual (3.8.11.30), and avoid procedures that rely on information coming through email because it is vulnerable to unauthorized access.
- Provide adequate communication and training to staff on the verification requirements to ensure they are consistently followed



SHORELINE CITY COUNCIL

Mayor Keith Scully
Deputy Mayor Betsy Robertson
Councilmember Doris McConnell
Councilmember Laura Mork
Councilmember Eben Pobe
Councilmember John Ramsdell
Councilmember Chris Roberts

December 28, 2023

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of City of Shoreline for the period from January 1, 2022 through December 31, 2022. 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 all 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 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. Except as reported by the audit, 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.
 10. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.³

Additional representations related to the financial statements:

11. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
12. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.

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

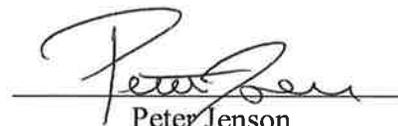
24. We acknowledge our responsibility for reporting supplementary information such as the Schedule of Expenditures of Federal Awards in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
25. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
26. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.
27. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.
28. We believe the effects of uncorrected financial statement misstatements summarized in the schedule of uncorrected items provided to us by the auditor are not material, both individually and in the aggregate, to each applicable opinion unit.
29. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

Additional representations related to expenditures under federal grant programs:

30. We acknowledge our responsibility for complying, and have complied, with the requirements of 2 CFR § 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.
31. With regards to your audit of federal grant programs, we have made available all relevant and requested information of which we are aware, including:
 - a. All federal awards and related grant agreements (including amendments, if any), contracts with pass-through entities, service organizations and vendors, and correspondence.
 - b. All communications from federal awarding agencies, vendors, service organizations or pass-through entities concerning possible noncompliance.
 - c. All information regarding corrective actions taken and management decisions or follow-up work performed by federal or pass-through agencies on any findings reported in the past.

- d. All documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - e. Interpretations or other support for any situations where compliance with requirements might be questionable or unclear.
32. We have identified and complied with all direct and material compliance requirements of federal awards.
33. Management is responsible for establishing effective internal control and has maintained sufficient control over federal programs to provide reasonable assurance that awards are managed in compliance with laws, regulations, contracts or grant agreements that could have a material effect on each of our federal awards.
34. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.
35. Copies of federal program reports provided to you are true copies of the reports submitted, or electronically transmitted, to federal agencies or pass-through agencies, as applicable.
36. We are responsible for, and will accurately prepare, the auditee section of the Data Collection Form as required by the Uniform Guidance.


Sara Lane
Administrative Services Director


Peter Jensen
Finance Manager



SHORELINE CITY COUNCIL

Mayor Chris Roberts
Deputy Mayor Laura Mork
Councilmember Annette Ademasu
Councilmember Eben Pobe
Councilmember John Ramsdell
Councilmember Betsy Robertson
Councilmember Keith Scully

March 18, 2024

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

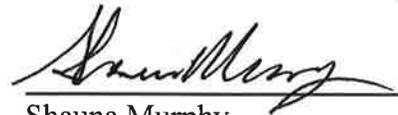
To the Office of the Washington State Auditor:

We re-affirm the representations made in our previous letter dated December 28, 2023, up to the date of this letter, which was provided to you in connection with your audit of City of Shoreline for the period from January 1, 2022 through December 31, 2022.

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.


Sara Lane
Administrative Services Director


Shauna Murphy
Finance Manager