



Washington State Auditor's Office

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Financial Statements Audit Report

City of Sunnyside

Yakima County

For the period January 1, 2011 through December 31, 2012

Published September 30, 2015

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Washington State Auditor's Office

September 30, 2015

Council
City of Sunnyside
Sunnyside, Washington

Report on Financial Statements

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**City of Sunnyside
Yakima County
January 1, 2011 through December 31, 2012**

2012-001 The City did not have adequate internal controls over accounting and financial statement preparation to ensure accurate reporting.

Background

City management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability and timeliness of financial reporting.

Our audit identified deficiencies in internal controls that adversely affected the City's ability to produce reliable financial statements and required schedules. Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The City did not take appropriate action to submit accurate and timely annual reports. The City prepared financial statements for 2011 and 2012. We performed an audit of these financial statements and were unable to conclude that the financial statements were materially correct. We provided the City with an opportunity to provide our office with revised financial statements. Although the City submitted corrected statements in January 2015, management was again unable to provide adequate documentation to support the amounts presented on the financial statements.

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- Management and staff were not able to demonstrate how the amounts on the financial statements agreed to accounting records. There was significant turnover in the Finance Director position. The former Finance Directors that worked on these financial statements did not retain documentation to support the amounts reported.

- The City did not perform bank reconciliations to ensure amounts recorded in the general ledger reconciled with transactions processed through the City's bank accounts. Management did not monitor to ensure bank reconciliations were being performed.
- Individuals responsible for preparing the financial statements lacked adequate training and understanding of the *Budgeting, Accounting and Reporting System* (BARS) manual and financial reporting requirements for cash basis entities.

The City did not have an effective review of the financial statements to ensure financial transactions were presented properly and complete.

Cause of Condition

The City experienced significant turnover in management and financial services. Between 2011 through 2013 five individuals held the City Manager position and three individuals held the Finance Director position. With this turnover, the City was unable to effectively monitor and report on the financial activity of the City.

Effect of Condition

As a result of these control deficiencies and errors identified, we were unable to give an opinion on the accuracy and completeness of the financial statements. Specifically:

- Ending cash and investments for 2011 did not agree to bank reconciliations and these reconciliations included large reconciling items that were titled as unknown balancing entries.
- Financial statements for 2012 did not include beginning or ending cash and investment balances for any funds.
- There were many journal entries and corrections to journal entries for 2011 and 2012 that were unsupported and duplicative.

Recommendation

We recommend the City establish internal controls to ensure accurate financial statement and SEFA reporting by ensuring:

- Finance staff who prepare financial statements receive necessary training to ensure that financial reporting is accurate and complete under the BARS requirements and that a knowledgeable person perform an independent review of these statements.

- Bank reconciliations are performed monthly and are properly supported and reviewed by an independent person.
- All transactions and journal entries are properly supported, reviewed and reported accurately.

City's Response

The City of Sunnyside acknowledges the auditor's comments, and understands the concerns expressed. In 2014, the City added additional staff to the finance department to assist with timely preparation of financial documents. Finance staff has attended BARS/Annual Report training and will continue to seek opportunities to continue training as available. The City is actively working toward an independent review of the financial statements by contracting with an outside third party vendor or seeking a review from another entity with knowledge of correct financial reporting. It is to be noted the 2014 Annual Report was submitted on time. The City has been proactive since 2014 to correct the deficiencies found in the 2011, 2012 and 2013 internal controls for properly reporting financial transactions.

The City of Sunnyside is actively preparing bank reconciliations on a monthly basis in 2015 with proper support and documentation which is reviewed by the City Manager and Director of Finance. The City is actively working toward a new procedure for the creation, support and review of journal entries. In the process of transition to BIAS software from Eden software in 2013, the number of journal entries has been reduced. All journal entries are created by the Financial Analyst and reviewed by the Director of Finance. In the absence the Financial Analyst or Director of Finance a review will be completed and signed off by the City Manager.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitment to improvements. We will review the status of this issue during our fiscal year 2015 audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 Local government accounting – Annual reports – Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS . . .

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or

grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Budgeting, Accounting and Reporting System (BARS) Manual; Accounting; Accounting Principles and Internal Control; Internal Control states in part:

Purpose and Definition of Internal Controls

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has

ultimate responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting . . .

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules . . .

Controls over Financial Reporting:

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.

- All transactions occurred during the period are recorded and reported.
- Transactions are recorded and reported at properly valued and calculated amounts.
- Recorded and reported transactions accurately reflect legal rights and obligations.
- Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

**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 Sunnyside
Yakima County
January 1, 2011 through December 31, 2012**

Council
City of Sunnyside
Sunnyside, Washington

We were engaged to 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, the financial statements of the City of Sunnyside, Yakima County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 28, 2015. Our report disclaims an opinion on such financial statements because we were not able to obtain financial statements supporting the financial activities of the City for the years ended December 31, 2012 and 2011, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our engagement to audit the financial statements of the City, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2012-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the City, 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 engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses as Finding 2012-001. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

CITY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive, flowing style.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Sunnyside Yakima County January 1, 2011 through December 31, 2012

Council
City of Sunnyside
Sunnyside, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the financial statements of the City of Sunnyside, Yakima County, Washington, for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 an opinion on these financial statements based on conducting the audits 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

Basis for Disclaimer of Opinion

The City did not provide accurate financial statements or supporting schedules for the periods ended December 31, 2012 and 2011, and therefore, representations of the City's financial activities were not available for audit. Further, the City did not retain sufficient documentation in support of transactions to allow us to evaluate the fair statement of revenues and expenditures in the financial statements for the periods ended December 31, 2012 and 2011. Bank reconciliations were not performed to allow us to evaluate the fair statement of cash balances presented in the financial statements. The City's records do not permit the application of other auditing procedures to evaluate the fair statement of revenues and expenditures.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the years ended December 31, 2012 and 2011. The statements are not included in our report.

Other Matters Regarding Disclaimer of Opinion

As the statutory auditor of all public accounts in the state of Washington we are precluded from withdrawing from the audit engagement, regardless of the matters described in the Basis for Disclaimer of Opinion paragraph.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015 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.

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

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.

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