

Attachment B

City of Redmond Rebuttal to the Audit Findings

Summary:

The City of Redmond does not agree with the Auditor's statement that the City did not dedicate the time and resources to the year-end financial statement preparation and review process to ensure the financial statements, notes and supplementary schedules were accurate and complete. The City has a many-pronged approach to make sure its financial statements are a true and correct representation of its financial standing and takes the accuracy of its financial reporting very seriously. Our current process is extensive, and we have a proven track record that our internal controls and management oversight and review procedures over our financial statement preparation is adequate. Our approach includes the following:

- Accounting staff prepare the financial statements
- The Financial Planning Division reviews the statements for accuracy
- The Accounting Manager reviews the statements
- The Deputy Finance Director and Finance Director review the statements

In addition, due to the current pandemic the City brought on additional resources to complete a final review of the prepared financial statements.

The audit was not conducted in the professional manner that the City has come to expect from the State Auditor's Team which began with a missed meeting between the Mayor and the audit lead of which the Mayor was not notified that the meeting was cancelled or that the auditor would be absent. Advice was given to the Redmond Team that was inaccurate and/or misleading and communications, at times, were unclear which led to the circumstances outlined below.

GASB 84 – Lake Washington School District (LWSD) Impact Fees

The City does not agree with the Auditor's comments regarding the implementation of GASB 84 in relation to Lake Washington School District impact fees. In determining what to include as fiduciary, we reviewed the flow charts provided within the GASB 84 Pronouncement, beginning on page 44 of the document. We also used the additional guidance: GASB Understanding Costs and Benefits Fiduciary Activities (see attached). This document states:

"Even if an organization does not meet either of those criteria, a government will nevertheless report it as a component unit if the government believes failing to do so would be misleading to the user of the financial statements."

The City collects the school impact fee on behalf of LWSD who establishes the rates. The City of Redmond has no control over the policies or procedures used to set the rates and no decision-making authority. In addition, the City is not in the business of constructing schools. All funds collected are remitted to LWSD. The reporting of LWSD Impact fees as a revenue and expense in the City's financial statements is misleading to the reader as both revenues and expenditures would be overstated.

According to GASB the City would be allowed to continue reporting the LWSD impact fees as fiduciary.

The GASB guidance provides the following: *“Path 2. Other component units are fiduciary if one or more of the following conditions are met:3. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.”*

GASB 84 States *“Fiduciary Component Units – 8. A component unit, that is not a pension arrangement or OPEB arrangement as described in paragraphs 6a-6d, is a fiduciary activity if the assets associated with the activity have one or more of the following characteristics: c. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organization or other governments.”*

Per the auditor’s direction our financial statements have been updated and LWSD impact fees are no longer reported as fiduciary.

Sale of Esterra Property

The City does not agree with the auditor’s statement that the sale of the Esterra property was significant and due to a lack of internal controls. The City recorded the transaction correctly in the Fund Statements and in the General Ledger. The way the transaction was recorded is consistent with audited transactions of this type in the past. The overstatement in the Governmental Activities and Contributions/Disposals from Capital Assets affected both revenues and expenditures, therefore the City’s net position was accurate and would not mislead a reader. The \$1.7 million loss on the sale of the property was also recorded accurately and it also did not affect the net position. A reasonable person relying on the City’s financial statements would not be misled and/or influenced by the inclusion or correction of this item. The overstatement is also immaterial as it represents 5% of the City’s total expenses and only 4% of the City’s total revenues, however the financial statements have been updated.

License and Permit Revenue

The City agrees with the auditor’s statement that license and permit revenues were overstated by \$1,236,918. At the developer’s request the City billed the company early for the next development agreement payment due on the developer’s \$17 million contract and the City inadvertently billed the developer on 12/31/2019 for revenue due in 2020. The error was a timing issue and is not significant given the magnitude of the development agreement. The amount (\$1.2 million) reflects only 6% of the total governmental funds license and permit revenue and less than 1% of the City’s total governmental fund revenue. The City’s process for entering and billing customers includes management review prior to posting. The incorrect posting of the revenue was merely an oversight, not an internal control issue and does not rise to the level of a finding.

The City has a long history of excellent financial management, financial reporting and consistently follows good internal control procedures. If you have questions about the above statements or need clarifying information, please do not hesitate to contact Julie Elsom, Accounting Manager at 425-556-2181 or myself (Malisa Files, Finance Director) at 425-556-2166.