# Exit Conference: City of Cosmopolis

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, 2022 through December 31, 2023
- Financial statement audit for January 1, 2022 through December 31, 2023

## Audit Highlights

- Communication between audit staff and City staff was efficient, productive and professional. We appreciate the City's participation in weekly status update meetings.
- The City had turnover in several staff positions who are our key contacts for audit areas we examined. City staff was flexible and patient when working with audit staff. We had several audit areas that required multiple follow up questions and additional work to be performed. All City staff were professional and courteous throughout the audit. We appreciate the City's support in completing the audit
- We appreciate that the City is responsive to our suggestions and recommendations on areas of improvement. It shows dedication to continuous improvement.

## 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. We noted certain matters that we are communicating in a letter to management related to financial statement preparation and financial condition.

### Exit Items

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

## Status of Prior Management Letter items

| Brief Description | Resolved | Unresolved |
|---|---|---|
| Financial Statement Preparation | | X |
| Utility Billing | | X |

## Financial Statement Audit Communication

We would like to bring the following to your attention:

- 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.

## 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 requested of management.

### Audit Cost

At the entrance conference, we estimated the cost of the audit to be $32,900 and actual audit costs will approximate that amount.

### Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2026 and will cover the following general areas:

- Accountability for public resources
- Financial statement

The estimated cost for the next audit based on current rates is $29,700 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

If expenditures of federal awards are $750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal Single Audit requirements. Federal awards can include grants, loans, and non-cash assistance like equipment and supplies.

## 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**

**Ann Strand, Assistant Director of Local Audit, (509) 454-7849, Ann.Strand@sao.wa.gov**

**Lisa Carrell, CPA, Program Manager, (564) 999-0882, Lisa.Carrell@sao.wa.gov**

**Katie Gravatt, Assistant Audit Manager, (564) 999-0881, Katie.Gravatt@sao.wa.gov**

**Colleen Williams, Audit Lead, (253) 523-3031, Colleen.Williams@sao.wa.gov**

Office of the Washington State Auditor
Pat McCarthy



# Accountability Audit Report

# City of Cosmopolis

**For the period January 1, 2022 through December 31, 2023**

*Published (Inserted by OS)*

Report No. 1036375

# Office of the Washington State Auditor
# Pat McCarthy

Issue Date – (Inserted by OS)

Mayor and City Council
City of Cosmopolis
Cosmopolis, 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,

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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# 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.

We also noted certain matters related to financial condition that we communicated to City management and the Mayor and City Council in a letter dated December 20, 2024. 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 Cosmopolis from January 1, 2022 through December 31, 2023.

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, 2023 and 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts receivable – utility billing and adjustments
- Financial condition – reviewing for indications of financial distress
- Cash receipting – timeliness and completeness of deposits
- Accounts payable – general disbursements
- Payroll – gross wages and leave cash outs
- Fire Department – general disbursements, credit cards, purchases, and tracking and monitoring of theft sensitive assets
- Open public meetings – compliance with minutes, meetings and executive session requirements

**City of Cosmopolis**
**January 1, 2022 through December 31, 2023**

## 2023-001 The City lacks adequate controls to prevent or detect utility billing errors

### *Background*

The City collected approximately $1.31 million and $1.33 million in revenues from utility and other miscellaneous payments during fiscal years 2022 and 2023, respectively. The City operates a water/sewer and stormwater utility, which serves approximately 765 accounts.

The City is responsible for establishing adequate controls over customer utility billings to ensure they are accurate.

### *Description of Condition*

We examined internal controls over utility billing at City Hall and noted the following concerns:

- One employee manually enters utility rate changes into the billing system. City staff do not perform a secondary review to ensure the information is input accurately and the rates apply to the appropriate period.
- City staff do not perform a secondary review of water usage meter readings that are manually entered into the system to ensure they are accurate before generating the customer's bill.
- City staff do not have established controls to ensure sewer charge calculations are properly supported.

### *Cause of Condition*

The City transitioned to a new utility billing software in 2019. Management did not commit sufficient time and resources to establishing adequate processes and oversight of utility billings.

### *Effect of Condition*

Our audit noted the following. The City:

- Underbilled four accounts approximately $6,422 for water usage from January 2023 to November 2023 because employees did not update the approved rate in the billing system
- Overbilled all 765 accounts approximately $17,629 for water, sewer, stormwater and the emergency medical services surcharge for December 2023 because the City updated rates in the billing system before they became effective as of January 1, 2024.
- Did not charge the base sewer rate for one account, which resulted in it underbilling the account by a total of $190,304 from June 2019 to May 2023
- Did not input the manual meter reading for one account's water usage, which resulted in it underbilling the account for the month. The City adjusted this in the next month's billing after entering an accurate meter reading.
- Did not maintain adequate documentation to show how it calculated the monthly sewer charges for one account that had charges based on active user lots. The City charged this account $43,910 in sewer services for 2023.

### *Recommendation*

We recommend the City improve internal controls over utility billings to safeguard public resources and ensure it receives all money it is owed. Specifically, the City should:

- Ensure the utility charges are compliant with approved rates
- Ensure it enters manual meter reads into the system for the City's monthly billings and checks them to ensure accuracy
- Maintain adequate documentation to support customer billings

## *City's Response*

*The City recognizes and acknowledges that there were weaknesses during the audit period covering 2022-2023 within the internal controls and policies that existed within the past Utility Billing process.*

*With regard to the overbilled accounts, this error was likely due to the ambiguity of the language of the resolutions changing rates. The language specifically states in section 5: "This Resolution shall be effective on January 1, XXXX" In fact the rates were entered into the system within the first few days in January in both 2022 and 2023. The resolution(s) did not specifically state the billing periods when the rates took effect.*

*In recognition of the deficiencies found by the State Auditor's Office and City Staff, the City has already instituted the following policy and procedure changes:*

- *Resolutions enacting new rates will be clearly stated with noted effective dates of the rate changes and the billing period of when they take effect.*
- *Process and procedures are written to include:*
    - *All rate entries will be verified by a second employee and approved by the Clerk/Treasurer and or Mayor*
    - *Copies of all updated rate tables will be kept with the resolution allowing the changes and the Utility Billing Processing Checklist for the billing cycle impacted.*
    - *Testing of new rates will be done prior to the billing cycle impacted and test results evidencing accuracy of the rate change will be kept with the Utility Billing Processing Checklist for the billing cycle impacted.*
    - *Manually entered meter reads are now entered onto a form with noted service locations. These are verified in the system with the manual service locations and the prior months billings to ensure all manual meters have entered meter reads.*
- *Review and proposal of any rate changes will ensure the ability to validate the rate at any given service location.*

## *Auditor's Remarks*

We appreciate the steps the City is taking to resolve this issue. 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, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

Linda Springer, Mayor

PO Box 2007
Cosmopolis, WA 98537
(360) 532-9230
www.cosmopoliswa.gov

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

## City of Cosmopolis
## January 1, 2022 through December 31, 2023

This schedule presents the status of findings reported in prior audit periods.

| **Audit Period:** | **Report Ref. No.:** | **Finding Ref. No.:** |
|---|---|---|
| January 1, 2019 through December 31, 2021 | 1032570 | 2021-001 |

**Finding Caption:**

The City lacked adequate internal controls and monitoring over the Fire Department's operations to ensure it safeguarded public funds and complied with state law.

**Background:**

The internal controls and policies that the City established were inadequate for ensuring the Fire Department safeguarded public funds and its purchases followed state law. As a result, the audit found the following significant internal control weaknesses:

- The Fire Chief was responsible for reviewing and approving expenditures and submitting the invoices to City Hall for payment. The City did not ensure the Fire Department's expenditures were paid timely, procured properly, and allowable under state law and City policy.
- The City lacked small and attractive asset policies, and did not ensure the Fire Department tracked and monitored these assets.

**Status of Corrective Action: (check one)**

| | | | |
|---|---|---|---|
| ☒ Fully Corrected | ☐ Partially Corrected | ☐ Not Corrected | ☐ Finding is considered no longer valid |

**Corrective Action Taken:**

*Thank you for the opportunity to provide input on this matter.*

*As mentioned in the previous audit's response from the City, we have taken significant actions to safeguard public funds. While there was previously an agreement between the City of Cosmopolis and the Cosmopolis Volunteer Fire Association to provide fire protection services to the city, that has since been removed. Now, the Fire Department operates as a department within the City of Cosmopolis. All revenues and expenses are tracked and accounted for through the City's standing processes. The Fire Department no longer expends funds outside*

| |
|---|
| *of the city's processes. This includes procurement of goods and services in addition to standard expenses such as utilities. Procurement processes of the Fire Department fall within the City's processes.*<br>*As part of the new structure for the Fire Department, it was proven necessary to add a volunteer Administrative Assistant position. This position assists with processing of invoices and regularly ensuring that the Fire Department is following city processes and that the city is aware of expenses being incurred by the Fire Department. Expenses from the Fire Department require a Purchase Order to be signed by the Fire Chief prior to being processed by the Finance Department to ensure the Fire Chief is reviewing and approving all expenses for the Fire Department.*<br>*Small and Attractive equipment that is issued to personnel of the Fire Department are issued via a 'Personnel Equipment Issue' form and maintained within the personnel's file. These forms track unique identifiable numbers for all equipment issued to the personnel and require two signatures when equipment is issued, one from the personnel and one from the issuing department fire officer. Furthermore, a signature from a department fire officer is required when equipment is returned to the department. Equipment issued to personnel are inspected quarterly as part of equipment safety checks.* |

## 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, https://portal.sao.wa.gov//ReportSearch.

## INFORMATION ABOUT THE CITY

The City of Cosmopolis was incorporated in 1891. It is administered by a mayor-council form of government. There are five elected Council members and an independently elected Mayor. The City's 13 employees provide a full range of municipal services to its 1,660 citizens including: water, sewer, police, Municipal Court, fire, street maintenance, parks and recreation, permits and inspections, as well as general administrative services. The City had revenues in 2022 of $4.2 million and $3.5 million in 2023.

| Contact information related to this report | |
|---|---|
| Address: | City of Cosmopolis<br>PO Box 2007<br>Cosmopolis, WA 98537-0707 |
| Contact: | Kerry Barr, Clerk/Treasurer |
| Telephone: | (360) 532-9230 |
| Website: | http://www.cosmopoliswa.gov/ |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the City of Cosmopolis at https://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

December 20, 2024

Mayor and City Councilmembers
City of Cosmopolis
Cosmopolis, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the City of Cosmopolis from January 1, 2022 through December 31, 2023. 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 (564) 999-0882.

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,

Lisa Carrell

Lisa Carrell, Audit Manager


Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (564) 999-0950 • Pat.McCarthy@sao.wa.gov

Management Letter

City of Cosmopolis
January 1, 2022 through December 31, 2023

**Financial Condition**

City Council and its management are responsible for ensuring the City can meet its financial obligations. We identified concerns regarding the City's financial sustainability due to large decreases in cash balance sufficiency, operating margin and change in cash position from fiscal years 2022 to 2023.

Cash balance sufficiency is a measure showing the number of days the City could sustain operations with cash on hand. The table below shows the City's cash balance sufficiency since 2022:

| | 2022 | 2023 | 2024* |
|---|---|---|---|
| Ending cash and investments | 760,945 | 232,642 | 142,496 |
| General fund operating expenditures | 2,050,201 | 2,078,268 | 1,380,762 |
| General fund debt service | 105,680 | 85,607 | 78,932 |
| Transfers out | - | - | - |
| Days of operating expenditures | 129 | 39 | 35.6 |

*2024 data consists of unaudited data using the City's general ledger reports from January to October 2024

Operating margin is a measure showing the difference between operating revenues and expenses for its governmental funds. The table below shows the City's operating margins since 2022:

| | 2022 | 2023 | 2024* |
|---|---|---|---|
| Govt fund revenues | 2,879,093 | 2,032,191 | 4,387,432 |
| Govt fund operating expenditures | 2,214,016 | 2,207,596 | 3,592,956 |
| Govt fund debt service | 274,916 | 281,553 | 262,791 |
| Net income as percent of revenues | 14% | -22% | 12% |

*2024 data consists of unaudited data using the City's general ledger reports from January to October 2024

The negative operating margin for 2023 indicates that the City might need to increase revenues or decrease expenses to sustain operations.

Change in cash position measures overall fiscal sustainability for government funds. The City's reported balances for beginning and ending cash since 2022 were as follows:

| | 2022 | 2023 | 2024* |
|---|---|---|---|
| Govt fund beginning cash & investments (308) | 3,644,556 | 3,906,610 | 2,985,321 |
| Govt fund ending cash & investments (508) | 3,906,610 | 2,985,321 | 3,779,797 |
| Percent change in cash position | 7% | -24% | 27% |

*2024 data consists of unaudited data using the City's general ledger reports from January to October 2024

The negative percent change in cash indicates the City's ending cash was less than beginning cash during 2023, and its current operations may not be sustainable.

We recommend the City develop a plan to closely monitor financial activity, and determine the steps needed to address its financial condition and ability to pay its obligations.

# Financial Statements Audit Report

# City of Cosmopolis

**For the period January 1, 2022 through December 31, 2023**

*Published (Inserted by OS)*

Report No. 1036410

Scan to see another great way we're helping advance #GoodGovernment

# Office of the Washington State Auditor
# Pat McCarthy

Issue Date – (Inserted by OS)

Mayor and City Council
City of Cosmopolis
Cosmopolis, Washington

## Report on Financial Statements

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

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

Sincerely,

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.*

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# INDEPENDENT AUDITOR'S REPORT

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 Cosmopolis**
**January 1, 2022 through December 31, 2023**

Mayor and City Council
City of Cosmopolis
Cosmopolis, 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 City of Cosmopolis, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 20, 2024.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 above 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain other matters that we have reported to the management of the City in a separate letter dated December 20, 2024.

## REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

December 20, 2024

# INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

**City of Cosmopolis**
**January 1, 2022 through December 31, 2023**

Mayor and City Council
City of Cosmopolis
Cosmopolis, Washington

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Unmodified and Adverse Opinions

We have audited the financial statements of the City of Cosmopolis, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the financial section of our report.

### Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Cosmopolis, and its changes in cash and investments, for the years ended December 31, 2023 and 2022, on the basis of accounting described in Note 1.

### Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Cosmopolis, as of December 31, 2023 and 2022, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

## Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

## Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## Responsibilities of Management 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 state law and the BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

*Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2024 on our consideration of the City's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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

December 20, 2024

# FINANCIAL SECTION

**City of Cosmopolis**
**January 1, 2022 through December 31, 2023**

## FINANCIAL STATEMENTS



## SUPPLEMENTARY AND OTHER INFORMATION

## 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

December 20, 2024

Mayor and City Council
City of Cosmopolis
Cosmopolis, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial audit of the City of Cosmopolis from January 1, 2022 through December 31, 2023. 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 (564) 999-0882.

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,

Lisa Carrell

Lisa Carrell, CPA, Program Manager


Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (564) 999-0950 • Pat.McCarthy@sao.wa.gov

Management Letter

City of Cosmopolis
January 1, 2022 through December 31, 2023

**Financial statement preparation**

Management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance the City's financial statements, related schedules and notes are reliable and fairly presented. The City reports its financial statements using the cash-basis accounting method as prescribed in the *Budgeting, Accounting and Reporting System* (BARS) Manual.

In the prior audit, the City received a management letter recommendation to strengthen controls over its review of the financial statements. Although the City established a financial statement preparation and review process, our audit found it was ineffective for identifying and correcting all errors. Further, we found the City did not ensure staff had adequate training and knowledge of the BARS reporting requirements. As a result, the City:

- Incorrectly reported $2,829,927 in bond proceeds and $36,198 of capital expenditures within the debt service fund in 2022
- Misclassified the ending cash and investments for funds 305, totaling $223,771, as committed instead of restricted in 2022
- Misclassified the ending cash and investments for funds 401, 402 and 410, totaling $173,289, as committed instead of assigned in 2022
- Reported a negative ending fund balance of $31,396 in 2023 for fund 205

Our audit also identified several less significant errors in the Notes to the Financial Statements for 2022 and 2023. The City corrected all errors listed above except the negative fund balance error.

We continue to recommend the City strengthen its internal controls and dedicate the resources necessary to ensure all staff responsible for preparing the financial statements have adequate training to prepare accurate and complete financial statements in accordance with the BARS Manual. Additionally, the City should continue to improve its secondary review process to ensure the annual report is accurate and meets reporting standards.

**LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD**

December 20, 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 are providing this letter in connection with your audit of City of Cosmopolis for the period from January 1, 2022 through December 31, 2023. 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 inquires 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 relevant and requested 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, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.

11. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.

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

12. We acknowledge our responsibility for fair presentation of the financial statements and believe financial statements are fairly presented in accordance with the *Budgeting, Accounting and Reporting Standards Manual* (BARS Manual), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

13. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.

14. The financial statements properly classify all funds and activities.

15. Revenues are appropriately classified by fund and account in accordance with the BARS Manual.

16. Expenses are appropriately classified by fund and account, and allocations have been made on a reasonable basis.

17. Ending cash and investments are properly classified as nonspendable, restricted, committed, assigned, and unassigned.

18. The methods, data and significant assumptions we used in making accounting estimates and related disclosures are appropriate and free from intentional bias.

19. 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.

20. 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.

21. We acknowledge our responsibility to include all necessary and applicable disclosures required by the BARS Manual, including:

    a. Description of the basis of accounting, summary of significant accounting policies and how this differs from Generally Accepted Accounting Principles (GAAP).

    b. Disclosures similar to those required by GAAP to the extent they are applicable to items reported in the financial statements.

    c. Any additional disclosures beyond those specifically required by the BARS Manual that may be necessary for the statements to be fairly presented.

22. We acknowledge our responsibility for reporting supplementary information such as the Schedule of Liabilities in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.

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 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 the financial statements taken as a whole.

25. 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.

| | |
|---|---|
| ________________________ | ________________________ |
| Linda Springer<br>Mayor | Kerry Barr<br>City Clerk-Treasurer |

# Summary of Uncorrected Items

| Description | Statement / Schedule |
|---|---|
| 2022: The City overstated the ending balance for the 2019 Tahoe by $2,694 | Schedule of Liabilities |
| 2023: The City's ending fund balance for 205 has a negative value of -$28,766 | C4 |
| 2023: The City transferred $20,992.75 from Fund 702 to Fund 012 and did not record the transfer of funds as a transfer in under Fund 012 | C4 |
| 2022: The City did not include a lease disclosure in the Notes to the Financials | Notes |
| 2022: The City's restricted portion table is missing the capital project fund and reporting the balance under UTGO Bond 2020 under Note 1 | Notes |
| 2022: The City's budget table does not reflect the Capital Project Fund in Note 2 | Notes |
| 2022: The City overstated the City's long term debt schedule in Note 7 by $3,016 for principal amounts and $34,260 for interest amounts. | Notes |
| 2022: The City did not list the applicable plans under Note 8 | Notes |
| 2023: The City did not include a lease disclosure in the Notes to the Financials | Notes |