



City of Valdez, Alaska

Federal and State Single Audit Reports
Year Ended December 31, 2017

City of Valdez, Alaska

Federal and State Single Audit Reports
Year Ended December 31, 2017

City of Valdez, Alaska

Contents

	Page
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 <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Independent Auditor's Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of State Financial Assistance Required by the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>	8-10
Schedule of State Financial Assistance	11
Notes to Schedule of State Financial Assistance	12
Schedule of Findings and Questioned Costs	13-17
City of Valdez Single Audit Responses (Unaudited)	
Summary Schedule of Prior Audit Findings	20
Corrective Action Plan	21-23



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3601 C Street, Suite 600
Anchorage, AK 99503

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*

Honorable Mayor and City Council
City of Valdez, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Valdez, Alaska as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise City of Valdez's basic financial statements, and have issued our report thereon dated September 13, 2018. Our report includes a reference to other auditors who audited the financial statements of Valdez City Schools, Valdez Museum & Historical Archive Association, Providence Valdez Medical Center, and Providence Valdez Counseling Center as described in our report on City of Valdez's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Providence Valdez Medical Center, Providence Valdez Counseling Center, and the Valdez Museum & Historical Archive Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Valdez's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Valdez's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Valdez'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operations 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2017-001 and 2017-002).

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 deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (2017-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Valdez'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Valdez's Response to Findings

City of Valdez's response to the findings identified in our audit are described in the accompanying corrective action plan. City of Valdez's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
September 13, 2018



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3601 C Street, Suite 600
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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Honorable Mayor and City Council
City of Valdez, Alaska

Report on Compliance for Each Major Federal Program

We have audited City of Valdez's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Valdez's major federal programs for the year ended December 31, 2017. City of Valdez's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

City of Valdez's basic financial statements include the operations of Valdez City Schools, Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center. Our audit, described below, did not include the operations of Valdez City Schools, Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center because they each were subject to separate audits; however, none met the threshold for an audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Valdez's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Valdez's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Valdez's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Valdez complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of City of Valdez is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Valdez's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Valdez's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Valdez as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise City of Valdez's basic financial statements. We issued our report thereon dated September 13, 2018, which contained unmodified opinions on those financial statements. Our audit included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
September 13, 2018

City of Valdez, Alaska
Schedule of Expenditures of Federal Awards
for the Year Ended December 31, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Agriculture				
Passed through State of Alaska Department of Commerce, Community, and Economic Development - Forest Service Schools and Roads Cluster - Schools and Roads - Grants to States	10.665	N/A	\$ -	\$ 28,270
Passed through State of Alaska Department of Natural Resources, Division of Forestry - Cooperative Forestry Assistance	10.664	N/A	-	7,500
Emergency Watershed Protection Program	10.923		-	971,564
Department of the Interior				
Passed through State of Alaska Department of Commerce, Community, and Economic Development - Payments in Lieu of Taxes	15.226	N/A	-	741,041
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 1,748,375</u>

See accompanying notes to the schedule of expenditures of federal awards.

N/A - not available

City of Valdez, Alaska

Notes to Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of City of Valdez, Alaska (the City) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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Independent Auditor's Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and City Council
City of Valdez, Alaska

Report on Compliance for Each Major State Program

We have audited City of Valdez's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of Valdez's major state programs for the year ended December 31, 2017. City of Valdez's major state programs are identified in the accompanying schedule of state financial assistance.

City of Valdez's basic financial statements include the operations of Valdez City Schools which received \$6,019,548 in state awards which is not included in City of Valdez's schedule of state financial assistance during the year ended December 31, 2017. Our audit, described below, did not include the operations of Valdez City Schools because it was subjected to a separate audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. City of Valdez's basic financial statements also include the operations of Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center. Our audit, described below, did not include the operations of Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center because they were subjected to separate audits; however, none met the threshold for an audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Valdez's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirement of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of Valdez's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of City of Valdez's compliance.

Opinion on Each Major State Program

In our opinion, City of Valdez complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of City of Valdez is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Valdez's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program, and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Valdez's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Valdez as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise City of Valdez's basic financial statements. We issued our report thereon dated September 13, 2018 which contained unmodified opinions on those financial statements. Our audit included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
September 13, 2018

City of Valdez, Alaska
Schedule of State Financial Assistance
for the Year Ended December 31, 2017

State Agency and Award Name	Award Number	Total State Expenditures
Department of Commerce, Community and Economic Development		
* Dock Improvements	15-RR-008	\$ 102,450
* City Dock Information and Interpretive Center	15-RR-007	85,590
Senior Center Canopies for Emergency Egress	15-DC-152	6,000
Senior Center Facility and Grounds Upgrade	14-DC-140	19,004
* Small Boat Harbor Expansion and Upland Development	14-DC-141	255,409
Shared Fisheries Tax	2017	39,559
Total Department of Commerce, Community and Economic Development		508,012
Department of Military and Veteran Affairs		
2018 Local Emergency Planning Committee Grant	18LEPC - GR35602	3,933
2017 Local Emergency Planning Committee Grant	17LEPC - GR35602	6,984
Total Department of Military and Veteran Affairs		10,917
Department of Revenue		
* Electric & Telephone Cooperative Tax	2017	202,890
* Shared Fisheries Business Tax	2017	200,438
Liquor Licenses	2017	10,800
Total Department of Revenue		414,128
Department of Administration		
* PERS Relief	2017	354,871
Department of Education and Early Development		
* School Debt Retirement Program	2017	1,437,799
Continuing Education	-	1,250
Public Library Assistance Grant	PLA 1878401	7,000
Total Department of Education and Early Development		1,446,049
Department of Transportation and Public Facilities		
* Harbor Debt Retirement Program	2017	210,050
Total State Financial Assistance		\$ 2,944,027

* Major programs

See accompanying notes to the schedule of state financial assistance.

City of Valdez, Alaska

Notes to Schedule of State Financial Assistance for the Year Ended December 31, 2017

1. Basis of Presentation

The accompanying schedule of state financial assistance (the “Schedule”) includes the state grant activity of City of Valdez, Alaska (the City) under programs of the state government for the year ended December 31, 2017. The information in the Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting.

2. PERS On-Behalf

The City has recorded \$354,871 in PERS on-behalf payments in the schedule of state financial assistance. This represents the PERS relief payments appropriated and transferred into the plan during calendar year 2017 and related to both pension and OPEB contributions.

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in their proportional share of payroll within the calendar year under audit.

However, in the full accrual financial statements (the government-wide financial statements), GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions. For the City, the PERS plan measurement period is July 1, 2016 through June 30, 2017, creating a six-month timing difference between the cash contribution and revenue and expense recognition for the pension on-behalf by the City in those statements.

As a result of these perspective and timing differences, amounts reported on the government-wide financial statements do not agree to the amount reported on the schedule of state financial assistance.

3. Community Assistance Program

The City was awarded \$174,372 in 2017 through the State of Alaska Department of Commerce, Community and Economic Development Community Assistance Program. The City met all eligibility requirements of the program; however the funds were not distributed to the City until after year end. Since the funds were not collected during the fiscal year or soon enough after year-end to be used to pay liabilities of the current period, the funds were not considered “available” under the modified accrual basis of accounting. As such, the amount is not considered state financial assistance in 2017.

City of Valdez, Alaska

Schedule of Findings and Questioned Costs Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☒ yes ☐ no
Significant deficiency(ies) identified? ☒ yes ☐ (none reported)

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? ☐ yes ☒ no
Significant deficiency(ies) identified? ☐ yes ☒ (none reported)

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster	Agency
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10.923	Emergency Watershed Protection	Department of Agriculture
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Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

State Financial Assistance

Internal control over major state programs:

Material weakness(es) identified? ☐ yes ☒ no
Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major state programs: Unmodified

Dollar threshold used to distinguish a state major program: \$ 75,000

Schedule of Findings and Questioned Costs, continued
Year Ended December 31, 2017

Finding 2017-001	Debt Service Fund Transactions - Internal Control over Financial Reporting - Material Weakness
Criteria	<i>Government Accounting Standards</i> state management is responsible for ensuring that financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.
Condition	Debt service expenditures, and intergovernmental revenues and receivables based on reimbursements related to eligible debt service expenditures, were misstated due to an incorrect interest payment made in the current year and incorrect calculations of amounts eligible for reimbursement.
Context	During testwork over debt service payments, it was determined that the City was invoiced and later disbursed an incorrect interest payment related to partially defeased bonds. The City overpaid and overstated interest expense by \$309,252. The City further overstated intergovernmental revenue and accounts receivable based on a miscalculation of amounts eligible for reimbursement related to harbor bonds by \$177,525.
Cause	Internal controls related to debt service expenditures and calculation of amounts eligible for reimbursement from the State of Alaska were not functioning properly.
Effect	Overstatement of expenditures, intergovernmental revenue and accounts receivable in the Debt Service Fund.
Recommendation	All requests for debt service payments should be carefully reviewed for accuracy prior to approval for disbursement. Debt service payments should be agreed to current debt service schedules prior to payment and posting to the general ledger. Intergovernmental revenue and accounts receivable based on eligible debt service reimbursements should be agreed to current debt service schedules.
View of Responsible Officials and Planned Corrective Actions	Refer to the corrective action plan.

City of Valdez, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2017

Section II - Financial Statement Findings Required to be Reported in Accordance with <i>Government Auditing Standards</i>
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Finding 2017-002	Construction in Progress - Internal Control over Financial Reporting - Material Weakness
<i>Criteria</i>	<i>Government Accounting Standards</i> state management is responsible for ensuring that financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.
<i>Condition</i>	Construction in progress was misstated due to noncapital items having been incorrectly classified.
<i>Context</i>	During testwork over construction in progress, it was determined that the City had incorrectly classified prior period noncapital expenses as construction in process. As a result, construction in process was over stated by \$2,663,272 at the beginning of the fiscal year.
<i>Cause</i>	Internal controls related to classification of expenditures as capital versus noncapital were not functioning properly.
<i>Effect</i>	Overstatement of construction in process and net position on the Governmental Activities Statement of Net Position.
<i>Recommendation</i>	All construction related projects should be reviewed in a timely manner to determine whether the underlying activity is capital in nature. The Finance department should communicate in a timely manner with other departments to gain a firm understanding of ongoing projects and classify expenditures properly in the fiscal year incurred.
<i>View of Responsible Officials and Planned Corrective Actions</i>	Refer to the corrective action plan.

City of Valdez, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2017

Section II - Financial Statement Findings Required to be Reported in Accordance with <i>Government Auditing Standards</i>
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Finding 2017-003 Accuracy of Health Insurance Internal Service Fund Balances - Internal Control over Financial Reporting - Significant Deficiency

Criteria *Government Accounting Standards* state management is responsible for ensuring that financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition Revenue, expense and liability balances in the City's Health Insurance Internal Service Fund were misstated due to year-end adjustments not having been posted.

Context During testwork over charges for services revenue and insurance claims expense, it was noted that the City did not adjust for all incurred transactions during the current fiscal year. As a result, both revenue and expense were understated by \$741,714. Furthermore, during testwork over the claims payable liability at year-end, it was noted that the City had not adjusted its estimate of claims incurred during 2017 but not paid as of year-end. As a result, ending net position was overstated and claims payable understated by \$507,215.

Cause Internal controls related to proper year-end close and adjustments of accounting estimates were not functioning properly.

Effect Understatement of charges for services revenue, insurance claims expense and claims payable liability on the Health Insurance Internal Service Fund Statement of Net Position.

Recommendation Management should adjust revenue and expense monthly in the Health Insurance Internal Service Fund. Management should track claims paid but incurred in a prior fiscal year and update the estimated claims payable liability at year-end in a timely manner.

*View of
Responsible
Officials and
Planned
Corrective
Actions*

Refer to the corrective action plan.

City of Valdez, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2017

Section III - Federal Award Findings and Questioned Costs

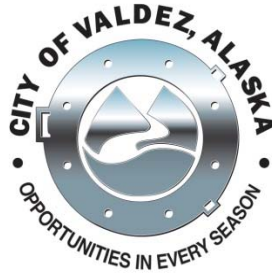
There were no findings and questioned costs for federal awards (as defined in 2 CFR 200.516(a)) that are required to be reported.

Section IV - State Award Findings and Questioned Costs

There were no findings and questioned costs for State awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.

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City of Valdez Single Audit Responses (Unaudited)



Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Government Auditing Standards Findings	
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Finding 2016-001	Capital Outlay and Prepaid Expense – Internal Control over Financial Reporting – Material Weakness
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<i>Finding</i>	Capital outlay and prepaid expense balances were misstated due to a prior year adjusting entry that was mistakenly double booked in 2016.
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<i>Status</i>	Finding resolved in 2017.
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Finding 2016-002	Accounts Payable – Internal Control over Financial Reporting – Significant Deficiency
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<i>Finding</i>	Accounts payable was misstated as expenditures were incorrectly recorded in subsequent fiscal year.
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<i>Status</i>	Finding resolved in 2017.
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Corrective Action Plan Year Ended December 31, 2017

Name of Contact Person: Brian Carlson, Finance Director

Finding: 2017-001 – Debt Service Transactions; Internal Control over Financial Reporting – Material Weakness

Background:

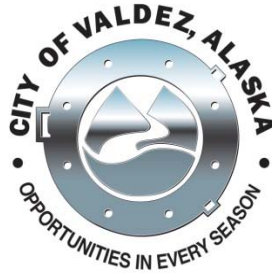
- The City has funded an irrevocable escrow account with Bank of New York Mellon for its GO2012 Middle School Debt Service.
- The December debt service payment was the first to be partially paid by the defeasance escrow.
- All remaining debt service payments will be fully paid from escrow.
- The City fully paid the December debt service payment without deducting the escrow payment.
- The escrow agent failed to remit the scheduled partial-payment
- Finance Staff had misstated the correct State reimbursement for its GO2012 Harbor/Refund issue by mistakenly double-posting a journal entry.

Corrective Action:

- Staff maintains a single schedule of all debt service payments for all outstanding issues to maturity, and distinguishes which payments are made from escrow. Staff will reference this schedule upon receipt of all debt-service invoices from the payment agent, and will correspond with escrow agent to confirm dates and amounts of defeasance-escrow payments. Staff will also obtain payment confirmation of such payments immediately following settlement, and will reconcile to monthly statements provided by the escrow agent.
- Staff will add an explicit “checklist” item to reconcile debt-service reimbursement receivables to calculated/written requests to the State of Alaska when preparing quarterly internal financial statements.

Expected Completion Date:

- December 31, 2018



**Corrective Action Plan
Year Ended December 31, 2017**

Finding: 2017-002 – Construction in Progress; Internal Control over Financial Reporting – Material Weakness

Background:

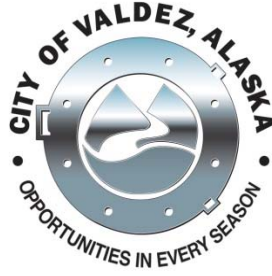
- Staff has followed previously established City conventions in its treatment of capital projects bookkeeping.
- During field-work interviews with auditors, it was revealed that numerous projects were incorrectly categorized as capital projects, thereby inflating the “work in progress” value. Though the bookkeeping method has not changed in recent history, the 2017 audit identifies this finding that prior-years’ audits did not identify.
- City bookkeeping of capital projects may be driven by internal considerations that are inconsistent with generally accepted accounting principles.

Corrective Action:

- Finance Director and Comptroller will attend an educational seminar in late July as a starting point in understanding correct treatment of capital projects.
- Concurrent with research into best practices and standards, staff will draft revised accounting policies and procedures for capital projects.
- Following drafting of policies and procedures, staff will undertake a review of all existing projects to determine their correct categorization and accounting treatment.
- Staff will also develop procedures at or before project inception to determine from project managers and owners the nature of the projects with respect to correct accounting treatment.

Expected Completion Date:

- December 31, 2018



Corrective Action Plan
Year Ended December 31, 2017

Finding: 2017-03 – Accuracy of Health Insurance Internal Service Fund Balance; Internal Control over Financial Reporting – Significant Deficiency

Background:

- Year-end procedures entail bookkeeping entries for insurance claims incurred but not paid, plus estimates of claims not yet incurred, but ultimately attributable to the year being closed.
- These figures are made available from the City's health insurance administrator, and/or can be deduced therefrom.
- Auditors determine that health insurance claims expense is understated based on staff's treatment these costs, and that reserve funds are therefore overstated.

Corrective Action:

- Staff will review and research standards and formulae for this category of expense with auditors and health insurance administrators to determine correct treatment.
- Staff will draft additional procedures for inclusion in monthly, quarterly, and year-end accounting for all categories of health insurance claims costs.

Expected Completion Date:

- December 31, 2018