

REPORT TO THE HONORABLE MAYOR AND MEMBERS OF THE  
CITY COUNCIL

# CITY OF UNALASKA

AUDIT WRAP UP:  
YEAR ENDED JUNE 30, 2022



# Contents

QUICK ACCESS TO THE  
FULL REPORT

<a href="#"><u>INTRODUCTION</u></a>	<b>3</b>
<a href="#"><u>EXECUTIVE SUMMARY</u></a>	<b>4</b>
<a href="#"><u>INTERNAL CONTROL OVER FINANCIAL REPORTING</u></a>	<b>10</b>
<a href="#"><u>ADDITIONAL REQUIRED COMMUNICATIONS</u></a>	<b>13</b>

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Entity, and is not intended and should not be used by anyone other than these specified parties.

# Welcome

October 10, 2023

The Honorable Mayor and Members of the City Council  
City of Unalaska

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On September 13, 2022 we presented an overview of our plan for the audit of the financial statements of City of Unalaska, (the City), as of and for the year ended June 30, 2022, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA

BDO USA, P.C., a Virginia professional service corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.



**JOY MERRINER**

Assurance Practice Leader  
907-770-2257 / jmerriner@bdo.com



**KELLY MAYES**

Senior Manager  
909-646-7302 / kmayes@bdo.com



# Executive Summary

# Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2022. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications. We issued unmodified opinions on the basic financial statements and released our report on October 4, 2023.
- ▶ We issued our 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* on October 4, 2023.
- ▶ We issued an unmodified opinion on the City's Single Audit report, including the Schedule of Expenditures of Federal Awards (SEFA) on October 4, 2023.
- ▶ In planning and performing our audit of the SEFA, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its major federal program(s) to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with GAS and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.
- ▶ Our responsibility for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the City and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.

# Results of the Audit

## ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the City's accounting practices, policies, and estimates:

The City's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 6 to the City's financial statements.
- ▶ In 2022, the City adopted *GASB Statement No. 87 - Leases* - Effective for the year-ended June 30, 2022. This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The City did discovery of all active leases and used materiality policies to determine whether they applied to GASB 87, then accounted for those that qualified accordingly.
- ▶ There were no other changes in significant accounting policies and practices during 2022.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. None of the estimates identified have been considered significant in the current year. The City's accounting estimates, including a description of management's processes and assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

### Accounting Estimates

**Net Pension/OPEB Liabilities** - For purposes of measuring the City's OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Alaska Public Employees Retirement System's (PERS) OPEB Plans and additions to/deductions from the PERS's OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by PERS.

**Leases** - The City used a discount rate of 2% to discount the expected future payments for leases accounted for under GASB Statement No. 87 when the rate implicit in the lease was not readily available.

**Fair Value Measurements** - The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

**Insured Liabilities** - The City currently participates in the Alaska Public Entity Insurance (APEI) pool, which covers property and contents, general, auto liability, law enforcement legal liability, errors and omissions, earthquake and flood, marine, and workers compensation

**Landfill Closure Liability** - Based on engineering studies and estimated inflation factors; accrued based on landfill usage over time.

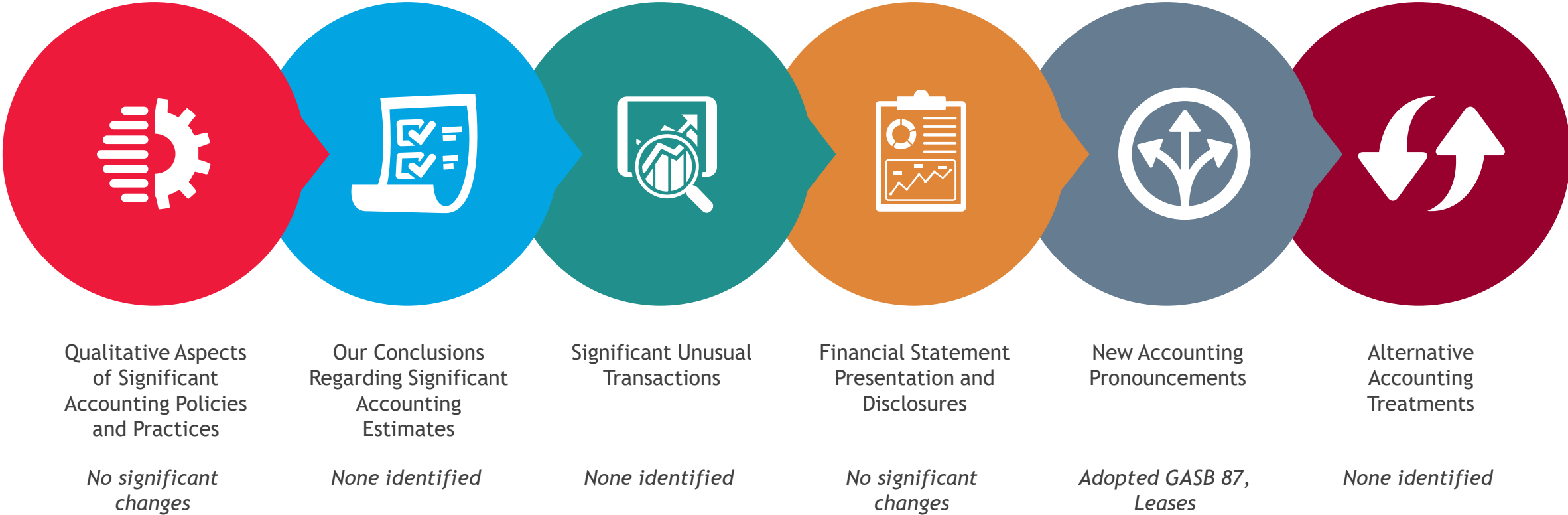
- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop accounting estimates in 2022.

The methods used to account for significant or unusual transactions, and related disclosures, are considered appropriate.

# Results of the Audit

## QUALITY OF THE City's FINANCIAL REPORTING

We are available to discuss the quality of the City's financial reporting, to include:





# Results of the Audit

## CORRECTED MISSTATEMENTS

Refer below for the schedule of corrected misstatements:

Corrected Misstatements			
Item #	Account Name and Adjustment Description	Debit	Credit
1	City Bed Tax	\$77,155	
	City Sales Tax		\$77,155
	Due to the General Fund		\$77,155
	Due to Bed Tax	\$77,155	
	Equity in Central Treasury - General Fund	\$77,155	
	Equity in Central Treasury - Bed Tax Fund		\$77,155
2	Federal Government Receivable - Coronavirus Relief Fund	\$400,000	
	Deferred Revenue - Water Fund		\$400,000
	Federal Government Revenue - Coronavirus Relief Fund	\$400,000	
	Federal Government Revenue - Water Fund		\$400,000
3	Port & Harbors Lease Liability	\$899,734	
	Port & Harbors ROU Asset		\$899,734
4	Loss on Disposal of General Capital Assets	\$113,063	
	Net Investment in Capital Assets		\$113,063

Description of Corrected Misstatements
1) To record sales tax revenue in the correct fund.
2) To reduce Revenue and record deferred revenue in the Water Fund for cash received but not earned, as well as record AR and revenue in the Coronavirus Relief Fund.
3) To update the beginning-of-the-year lease entry to true-up lease liabilities and ROU Assets in the Port & Harbors Fund
4) To update the loss on disposal of General Capital Assets for the Governmental Activities Statement of Activities



# Results of the Audit

## UNCORRECTED MISSTATEMENTS

Refer below for the schedule of uncorrected misstatements:

Uncorrected Misstatements

Item #	Account Name and Adjustment Description	Debit	Credit	Impact on Net Position
1	Expense for Contingent Liability	\$500,000		\$500,000
	Contingent Liability		\$500,000	
2	Coronavirus Relief Fund - Deferred Revenue		\$6,783	
	Coronavirus Relief Fund - Receivable	\$6,783		
Current year cumulative uncorrected misstatements				\$506,783
Cumulative effect of prior period uncorrected misstatements brought forward from last period				\$0
Cumulative uncorrected misstatements adjusted for prior period impact				\$506,783

Description of Uncorrected Misstatements

- 1) Proposed adjusting journal entry to accrue for contingent liabilities in FY23.
- 2) Proposed adjusting entry to reclass receivable for Coronavirus Relief Fund.



# Internal Control Over Financial Reporting

# Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City’s internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or 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.

Please refer to the Schedule of Findings and Questioned Costs for internal control items reported as material weaknesses.

# Internal Control Over Financial Reporting

We have communicated to the management of the City control deficiencies and provided suggestions for improvement of those deficiencies that were identified as a result of our audit that we did not consider to be material weaknesses nor significant deficiencies.

Control Deficiency	Comments	Recommendation
Capital Asset Schedule Reconciliation	The loss on disposal of capital assets was not reconciled to the underlying books and records resulting in a corrected misstatement.	We recommend the capital asset reconciliation schedule to be agreed to the underlying books and records during the review and approval process.



# Additional Required Communications

# Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risks of material misstatement, including fraud risks; or tips or complaints regarding the City's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of an applicable financial reporting framework.
If applicable, significant matters identified by component auditors	During the component auditor's procedures, there were no significant matters identified that were deemed necessary to bring to group management's attention.
Significant findings and issues arising during the audit in connection with the City's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.

# Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Point
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management, other than those reported on the Schedule of Findings and Questioned Costs..
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the City's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were delays related to the adoption of GASB 87, Leases, and closing of certain accounts in the books and records. There were no other significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.
If applicable, other matters significant to the oversight of the City's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the City's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.



# Independence

Our engagement letter to you dated July 19, 2022, describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.



# Audit Firm System of Quality Management

An audit firm’s system of quality control (aka system of quality management) is essential to how the firm conducts audits and is in place to protect investors, shareholders and other users of financial statements.

## QUALITY MANAGEMENT STANDARDS

In June 2022, the AICPA Auditing Standards Board (ASB) issued the following interrelated standards on audit quality management (collectively, the QM standards), which are designed to improve a CPA firm’s risk assessment and audit quality. The effective date of the QM standards is December 15, 2025.

<a href="#">Statement on Quality Management Standards (SQMS) No. 1</a>	<a href="#">Statement on Quality Management Standards (SQMS) No. 2</a>	<a href="#">Statement on Auditing Standards (SAS) No. 146</a>
<i>A Firm’s System of Quality Management</i>	<i>Engagement Quality Reviews</i>	<i>Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i>


BDO has assessed the requirements of the QM standards and has analyzed our firm’s current system of quality management to identify changes and improvements necessary for compliance. This includes the identification of quality objectives, quality risks and the assessment of those quality risks, and responses to address those risks. We are further working with BDO Global to appropriately integrate processes deployed at a global level into our firm’s system of quality management.

2020 BDO AUDIT QUALITY REPORT

CONTINUING  
TO BUILD  
TRUST



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO’s system of quality control within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).



*At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.*

*BDO is the brand name for the BDO network and for each of the BDO Member Firms.*

*BDO USA, P.C., a Virginia professional service corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. [www.bdo.com](http://www.bdo.com).*

*Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.*

*© 2023 BDO USA, P.C. All rights reserved.*

