



Exit Recommendations
City of Mercer Island
Audit Period Ending: 12/31/2018

We are providing the following exit recommendations for management's consideration. They are not referenced in the audit report. We may review the status of the following exit items in our next audit.

Accountability:

Contingency Fund

For FY18 and FY17 the Contingency Fund is set at 10%. Further, RCW 35A.33.145 specifies the total amount accumulated in such fund (the Contingency Fund) at any time shall not exceed the equivalent of thirty-seven and one-half cents per thousand dollars of assessed valuation of property within the city at such time. We reviewed the Contingency Fund Ending Fund Balance for FY17 and FY18 to determine if the amount is within RCW limits and target amounts detailed in City Policy.

We determined the FY17 Contingency Fund Ending Fund Balance is within allowable RCW limits. However, the FY18 Contingency Fund Ending Fund Balance exceeds RCW limits by \$38,712.

We recommend the City monitor the Contingency Fund Ending Balance to ensure reserves do not exceed allowable limits specified in RCW 35A.33.145.

Accountability:

Fire Department Overtime

We determined the Fire Department payroll processing policy is outdated and the following processes documented in policy are no longer being practiced:

- Watch Commander must initial overtime entries
- Fire Chief is to review, approve and sign overtime slips.

Furthermore, during our testing of Fire Department overtime, we determined one 24-hour overtime shift was not supported by a signed overtime sheet.

We recommend the Fire Department review and update written policies for controls over overtime that are currently being followed, in order to minimize the risk of mis-use or misappropriation.



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Accountability:

Controls over Electronic Funds Transfers

During our review of the City's internal controls over Electronic Funds Transfers (EFT), we observed that:

- Automatic notification of EFT's generally are sent to and or received by the primary contact only.
- The City does not have written policies over EFT's.
- The Direct Deposit Authorization form along with employees' personal bank information are emailed to Human Resources, putting sensitive information at risk.
- The hard copies of Direct Deposit Authorization forms and associated bank information are retained in the payroll department in binders and also located on a desktop. Employee bank information retained in the binders is not secured.

We recommend:

- EFT confirmations be received by an employee in addition to the primary contact to ensure dual oversight.
- The City establish written policies over EFT's.
- Deposit Authorization forms emailed to Human resources not be e-mailed to payroll since it sometimes contains voided checks.
- Bank information retained in binders be secured to limit access.

Financial Statements:

Journal Entry Review

Based on our review of journal entries and confirmation of controls over the financial statement preparation, we noted the City's journal entry coversheets does not contain a signature or name of the preparer and reviewer.



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We recommend the preparer and reviewer of journal entries sign journal entry coversheets to ensure accountability of duties and roles assigned to individuals.

Financial Statements:

Payroll Accrual

The City does not accrue payroll at year-end to ensure it is reported in the correct fiscal period. We calculated the amount of payroll expenditures that were posted to FY2019 and should have been accrued back to 12/31/2018 (2018 expenditures posted to 2019). We also calculated the amount of payroll expenditures that were posted to FY2017 and should have been accrued back to 12/31/2017 (2017 expenditures posted to 2018). Based on our calculation, we determined FY2018 payroll is understated by \$34,326. This amount was determined as follows:

Overstatement: 2017 Payroll posted to 2018 (2017 YE Accrual Amount)	\$ 1,267,121	
Understatement: 2018 Payroll posted to 2019 (2018 YE Accrual Amount)	\$ (1,301,447)	
Net effect on 2018 Payroll	\$ (34,326)	Understated

We recommend the City establish policies and procedures to accrue payroll to the proper reporting period.

Financial Statements:

Quarterly Financial Reports

We reviewed Council agenda packets and meeting minutes from January 2018 to November 2019 to determine if Council is receiving quarterly financial reports timely. RCW 35A.33.140 states cities are required to submit quarterly reports to the city's legislative body and chief administrative officer at least quarterly. When reports are provided late, there is a risk reports are no longer relevant and accurate, which could impact decision making at the City. We noted quarterly reports are not provided until at least a month after the end of the quarter, as detailed below:

- Quarterly reports were presented to council for review between 37 to 92 days after the end of the quarter.



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We recommend the City continue to provide quarterly financial reports to City Council in a timely manner as required by RCW 35A.33.140.