



**Office of the Washington State Auditor
Pat McCarthy**

November 5, 2020

City Council
City of Mercer Island
9611 SE 36th St.
Mercer Island, WA 98040

We are pleased to confirm the audits to be performed by the Office of the Washington State Auditor, in accordance with the provisions of Chapter 43.09 RCW, for the City of Mercer Island. This letter confirms the nature and limitations of the audits, as well as responsibilities of the parties and other engagement terms.

Auditor Responsibilities

Financial Statement Audit

The Office of the Washington State Auditor agrees to perform an audit of the basic financial statements of the City of Mercer Island as of and for the fiscal year ended December 31, 2019, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our audit will be conducted with the objective of our expressing an opinion on these financial statements.

We will perform our audit 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. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. Since we do not review every transaction, our audit cannot be relied upon to identify every potential misstatement. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the standards identified above.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers relevant internal controls 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, we will express no such opinion.

Although our audit is not designed to provide an opinion on the effectiveness of internal control over financial reporting, we are required to report any identified significant deficiencies and material weaknesses in controls. We are also required to report instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the accuracy of financial statements, or any instances of material abuse that come to our attention. Abuse is defined by *Government Auditing Standards* as involving behavior that is deficient or improper, or misuse of authority or position for personal financial interests. As the determination of abuse is subjective, *Government Auditing Standards* do not require auditors to detect instances of abuse.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

All misstatements identified by the audit will be discussed with management. Material misstatements corrected by management and all uncorrected misstatements will be communicated at the exit conference, as required by professional auditing standards.

Our responsibility is to express in a written report an opinion on the financial statements based on the results of our audit. We cannot guarantee an unmodified opinion. We may modify or disclaim an opinion on the financial statements if we are unable to complete the audit or obtain sufficient and appropriate audit evidence supporting the financial statements. If our opinion is other than unmodified, we will fully discuss the reason with you prior to issuing our report. Further, in accordance with professional standards, we may add emphasis-of-matter or other-matter paragraphs to our report to describe information that, in our judgment, is relevant to understanding the financial statements or our audit.

We will also issue a written report (that does not include an opinion) on issues identified during the audit related to the City's internal control over financial reporting and on compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

Accountability Audit

In accordance with RCW 43.09.260, we will perform an accountability audit for the fiscal year ended December 31, 2019, of the City's compliance with applicable state laws, regulations, policies and procedures, and safeguarding of public resources in areas representing the highest risk of fraud, loss, abuse, or noncompliance.

Areas will be selected for audit using a risk-based approach and will be identified in the audit entrance conference.

Upon completion of our audit, we will issue a written report describing the overall results and conclusions for the areas we examined.

Data Security

Our Office is committed to appropriately safeguarding the information we obtain during the course of the audit. We will:

- Avoid, where feasible, including information considered confidential in work papers.
- In cases where inclusion of personal information is unavoidable, we will follow our policy on confidentiality, consistent with applicable federal and state requirements.

- Maintain the confidentiality of personal information in accordance with the law.
- Ensure that confidential information will be encrypted in transmission if we retransmit it to any parties authorized to receive such information.
- Warrant that collection, access, use, storage, disposal and disclosure of confidential information will comply with all applicable federal, state and data protection laws, as well as all other applicable regulations and directives.
- Warrant that administrative, physical, and technical safeguards to protect confidential information are in place that are no less rigorous than accepted industry practices, including the current State of Washington Office of the Chief Information Officer (OCIO) IT Security Standards (OCIO 141.10) relating to Securing Information Technology Assets Standards, and that all such safeguards, including the manner in which confidential information is collected, accessed, used, stored, processed, disposed of and disclosed, comply with applicable data protection and privacy laws.

Responsibilities specific to this engagement

Additionally, we will:

- Conduct weekly progress meetings to discuss audit plans for future weeks. At those meetings, we will provide information on the departments we will work in and the audit objectives we will be addressing.
- Provide the audit liaison with advance notification if we identify issues that require further audit work and increase audit costs.
- Conduct a formal exit conference with the audit committee to discuss the results of the audit on or before January 31, 2020.
- Safeguard financial records and documentation from loss, damage, and inadvertent release to unauthorized persons.
- Provide written correspondence during the course of the audit through email to the audit liaison, LaJuan Tuttle, Deputy Finance Director.
- Provide advance notice when a scheduled meeting is to be cancelled.
- Allow seven days to provide written response to any findings.

Reporting levels for audit issues

Issues identified through the auditing process will be communicated as follows. Failure to appropriately address audit issues may result in escalated reporting levels.

- **Findings** formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations, contracts or grant agreements. You will be given the opportunity to respond to a finding, and this response, or a synopsis of it, will be published in the audit report. Professional auditing standards define the issues we must report as findings with regard to non-compliance with a financial statement effect and internal controls over financial reporting.
- **Management letters** communicate control deficiencies, non-compliance, abuse, or errors with a less-than-material effect on audit objectives. Management letters are referenced, but not included, in the audit report.
- **Exit items** address control deficiencies, non-compliance, abuse, or errors that have an insignificant effect on audit objectives. These issues are informally communicated to management and are not referenced in the audit report.

Client's Responsibilities

Management is responsible for the accuracy and completeness of information provided to the auditor and will provide the Office of the Washington State Auditor with:

- Unrestricted access to people with whom the auditor wishes to speak.
- All information that is requested or relevant to auditor requests.
- Notification when any documents, records, files, or data contain information that is covered by confidentiality or privacy laws, such as HIPAA.
- Adequate workspace and conditions (for any planned site visits), including interacting with auditors professionally and respectfully and promptly communicating about any issues and concerns.

Moreover, our audit does not relieve management or the governing body of their responsibilities. Management's responsibilities, with oversight from the governing body, include:

- Selecting and applying appropriate administrative and accounting policies.
- Establishing and maintaining effective internal controls over financial reporting, compliance, and safeguarding of public resources.
- Designing and following effective controls to prevent and detect fraud, theft, and loss.
- Promptly reporting to us knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others, in accordance with RCW 43.09.185.
- Ensuring compliance with laws, regulations and provisions of contracts and grant agreements.
- Preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Responsibilities at the conclusion of the audit

At the conclusion of our audit, the City will provide us with a letter to confirm in writing certain express and implied representations made during the course of the audit. This letter includes representations regarding legal matters. A separate letter may be needed from the City's legal counsel.

Management and the governing body are also responsible for following up and taking corrective action on all audit findings, including, when applicable, preparing a summary schedule of prior audit findings and a corrective action plan on the City's own letterhead.

Responsibilities specific to this engagement

Additionally, the City will:

- Provide our Office with documentation of the financial statement review and approval before they were submitted for audit.
- Obtain a clear understanding of accounting standards applied in your financial statements and fully understand any adjusting journal entries recommended by the Office of the Washington State Auditor before approving the entries.
- Revise financial statement and schedules only if agreed to in writing by our Office.
- Provide auditors adequate work space with access to secure Internet, phone, and electrical outlets, for any planned site visits.
- Interact with auditors professionally and respectfully and promptly communicate issues and concerns.

Estimated Audit Costs and Timeline

We estimate the cost of the audit work to be \$74,500, plus travel costs, and other expenses, if any. Invoices for these services will be prepared and presented each month as our audit work progresses.

We anticipate our reports, which will be addressed to the City's governing body and published on our website www.sao.wa.gov to be available to you and the public as outlined below. These estimates are based on timely access to financial information and no significant audit reporting issues. The estimated cost and completion date may change if unforeseen issues arise or if significant audit issues are identified necessitating additional audit work. We will promptly notify you if this is the case.

Report	Date*
Independent Auditor's Report on Financial Statements	January 31, 2021
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>	January 31, 2021
Independent Auditor's Report on Accountability	January 31, 2021

**Report Issuance Dates Are Estimates Only*

The audit documentation for this engagement, which may contain confidential or sensitive information, is the property of SAO and constitutes a public record under Chapter 42.56 RCW. Subject to applicable laws and regulations, appropriate individuals, as well as audit documentation, will be made available upon request and in a timely manner to appropriate auditors and reviewers, City's management and governing body, and federal agencies, for purposes of a public records request, a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities.

The audit documentation for this engagement will be retained for a minimum of five years after the report release (publish) date in accordance with the public records retention schedule established by the Washington Secretary of State.

Expected Communications

During the course of the audit, we will communicate with the City's selected audit liaison, LaJuan Tuttle, Deputy Finance Director, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed. The audit liaison is responsible for regularly updating the City's management and the governing body on these matters. We may also provide direct communication of these matters to management and the governing body as needed or at the City's request.

Please contact us if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect the audit liaison to keep us informed of any such matters.

Audit Dispute Process

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

By signing and returning this letter, you acknowledge that the foregoing is in accordance with your understanding. Please contact us with any questions.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

Sincerely,



Wendy Choy, Program Manager 11/5/2020
Office of the Washington State Auditor

City Response:

This letter correctly sets forth our understanding.



11/17/2020
Jessi Bon, City Manager *Date*

LaJuan Tuttle 11/13/2020
LaJuan Tuttle, Deputy Finance Director *Date*