



Office of the Washington State Auditor
Pat McCarthy

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Accountability Audit Report

City of Mercer Island

For the period January 1, 2019 through December 31, 2019

Published (Inserted by OS)

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Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Council
City of Mercer Island
Mercer Island, 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
State Auditor
Olympia, WA

Americans with Disabilities

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

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 Mercer Island from January 1, 2019 through December 31, 2019.

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 year ended December 31, 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition – review of fiscal sustainability and management's plans to address fiscal impacts due to COVID-19
- Payroll disbursements – review of timesheets, leave balance accruals, and leave cash-outs; review of performance awards and special recognition awards; review of payroll and benefit calculations



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mercer Island January 1, 2019 through December 31, 2019

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

Audit Period:	Report Ref. No.:	Finding Ref. No.:
January 1, 2018 through December 31, 2018	1026125	2018-001
Finding Caption:		
The City's internal controls over payroll disbursements were not adequate to safeguard public resources, resulting in errors and overpayments.		
Background:		
The City's payroll internal controls and policies were not adequate to ensure public resources were safeguarded. Our audit identified the following internal control deficiencies:		
<ul style="list-style-type: none"> • The City had multiple policies related to leave balance accruals and cash-outs. Different policies outlined different guidelines, resulting in guidance not being uniform across policies. In addition, there were instances where practices were not supported by a policy or when the guidance documented in policy was not being followed. • The City did not have adequate policies or procedures for the Director's Compensation Program, including stipends. The City provides a stipend to director-level employees that is paid as a lump sum at the beginning of the year. The City had several Directors leave the City in 2019 and did not require the employees to pay back a pro-rated amount for the stipend received. • The City did not perform adequate reviews over timesheets, leave balance reconciliations, vacation leave cash-outs, and payroll and benefit calculations for reporting and payments to the state Department of Labor and Industries. • The City did not require employees to submit a leave slip or other documentation for approval to support leave taken. • The City issued a large number of manual checks for payroll that is outside of the normal payroll run (off-cycle payroll checks). This practice should be minimized because it does not follow the same monitoring or controls established through the normal check run process. 		

Status of Corrective Action: (check one)

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

Corrective Action Taken:

- **Leave Accrual Balances and Cash-Outs**
 - All employees' (except police and fire employees) leave accrual balances are now managed by one Timekeeper who is not the Payroll Specialist.
 - Police and Fire each have a timekeeper and separate software that tracks employees leave accrual balances
 - Variants in policies for represented employee's leave accruals and cash-outs have been noted and will be addressed during contract bargaining in 2021.
 - All cash-outs must now be approved by an employee's supervisor AND department director. The updated leave cash-out form is attached
 - The Timekeeper reviews employees leave balances to ensure the leave is available to cash-out when a form is received.
 - All cash-outs are provided by direct deposit only and with the next regularly scheduled payroll.
- **Director's Compensation Program**
 - The City Manager approved a new policy for Additional Directors Benefits effective 6/1/2020 (see attached). The policy:
 - Sets the amounts and uses of Additional Monetary Benefits offered.
 - Determines when the Additional Monetary Benefits will be disbursed and notes pro-ratio for mid-year disbursement.
 - Notes that vacation leave accrual will change from annual to monthly in 2021.
 - Establishes that a director who separates from the City must reimburse the City at a pro-rated amount of Additional Monetary Benefits
 - Establishes that interim director appointments are ineligible for Additional Directors Benefits.
 - Establishes that a director who is reclassified to a non-director position must reimburse the City at a pro-rated amount for the Additional Monetary Benefits.
 - The City Manager approved a revised policy for Additional Directors Benefits effective 1/1/2021 (see attached). The revised policy:
 - Sets the amounts and uses of Additional Monetary Benefits offered.
 - Determines when the Additional Monetary Benefits will be disbursed and notes pro-ratio for mid-year disbursement.
 - Establishes that a director who separates from the City must reimburse the City at a pro-rated amount of Additional Monetary Benefits
 - Establishes that interim director appointments are ineligible for Additional Directors

Benefits.

- Establishes that a director who is reclassified to a non-director position must reimburse the City at a pro-rated amount for the Additional Monetary Benefits.
- Starting in 2021, department directors will receive their vacation leave on a monthly basis rather than an annual lump sum.
- The department director vacation accrual language is moving to the Employee Handbook instead of the Additional Director Benefits policy.
- The City consulted outside counsel to determine that the City would not try recover the pro-rated amount from former directors who left the City.
- **Adequate Review**
 - All employee timesheets are reviewed and signed by the employee's supervisor
 - All director timesheets are reviewed and signed by the City Manager
 - The City Manager's timesheet is reviewed and signed by the Mayor
 - Department summaries are reviewed and signed by the department director
 - One Timekeeper was established to review and reconcile all employees' (except police and fire employees) leave accrual balances and cash-outs. When processing cash-outs the Payroll Specialist also reviews the leave accrual balance of the employee.
 - The Payroll Specialist reconciles every payroll as follows:
 - After timesheets are collected from Timekeeper, they are organized in a Payroll Backup binder.
 - Payroll Specialist reviews the department summaries as well as the timesheets and enter the time worked in an excel spreadsheet titled "Post Payroll." The hours are entered in batches in ADP.
 - HR and Payroll have an EAF (Employee Action Form) spreadsheet that includes all changes and paperwork submitted.
 - A payroll preview is run when all the time and adjustments have been entered in ADP (City's payroll vendor).
 - The Payroll Specialist reconciles the payroll preview to the post payroll spreadsheet. Once it balances, the payroll is approved.
 - After payroll has been processed, the Payroll Specialist prints out all of the corresponding payroll reports.
 - The payroll register then is reconciled to the post payroll spreadsheet. This includes all hours worked, gross pay, and deductions.
 - Benefit deduction reports are printed and reconciled with corresponding benefit bills as well as individual excel spreadsheet per benefit provider.
 - HR Specialist reviews and verifies that changes on the EAF spreadsheet were entered on correctly on the payroll.
 - Hours and JL/GL codes are generated in OneSolution (City's financial system) and are reconciled to the payroll register.

- **Leave Slips**
 - Operating departments have variable electronic approval processes for authorizing paid time off including email notification, shared Outlook calendars and scheduling software specific to operational needs. Supervisors are required to review and sign each employee's timesheets for accuracy including any leave hours by type, amount, and day that leave was taken.
- **Manual Checks**
 - The City no longer issues manual checks for payroll except in extenuating circumstances (i.e. emergency, former employee, etc.).
 - All cash-outs are now provided by direct deposit only and with the next regularly scheduled payroll

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, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Mercer Island was incorporated in 1960. The City operates under the council-manager form of government, and has seven council members. The Council elects one of its members to serve a two-year term as Mayor. The Council appoints a City Manager to oversee the City's daily operations as well as its 178 employees.

The City serves approximately 24,000 residents. The City provides a full range of services to the public including general government, public safety, municipal court, street and trails maintenance, utilities maintenance, parks and recreation activities, public improvements, planning and zoning, and youth and family services.

The City is funded by a variety of revenue sources, including property taxes, sales taxes, utility taxes, business taxes, charges for services, and grants. In fiscal year 2019, the City's general fund operating budget was approximately \$29.7 million.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Mercer Island at <http://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.

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