



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: City of Mercer Island

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2023 through December 31, 2023 – see draft report
- Financial statement for January 1, 2023 through December 31, 2023 – see draft report
- Attestation examination for January 1, 2023 through December 31, 2023 – see draft report

Audit Highlights

- We would like to thank LaJuan Tuttle, Deputy Finance Director, as well as other City staff for their cooperation and timely responses to our requests throughout the audit.
- We thank the City for its commitment to strengthen the relationship with the Office of the Washington State Auditor.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance with laws or regulations that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Financial Statement Audit Communication

We would like to bring the following to your attention:

- We didn't identify any material misstatements during the audit.
- Uncorrected misstatements in the audited financial statements are listed below. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements.
 - Presentation Error: The City misclassified a total of \$39,072 between the General Government and Capital Expenditure expenses on C4 for the Capital Improvement Fund. As a result, understated

the reported amount for General Government by \$39,072 and the Overstated the reported Capital Expenditures amount by the same.

- The audit addressed the following risks, which required special consideration:
 - Due to the possibility that management may be able to circumvent certain controls, standards require the auditor to assess the risk of management override.
 - Implementation of GASB 96 - Subscription Based Information Technology Arrangements (SBITAs)

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of received from management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$82,400 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in July 2025 and will cover the following general areas:

- Accountability for public resources for January 1, 2024 through December 31, 2024
- Financial statement for January 1, 2024 through December 31, 2024
- Attestation engagement for January 1, 2024 through December 31, 2024

The estimated cost for the next audit based on current rates is \$72,700 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation at the Office of the Washington State Auditor offers services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean process improvement, peer-to-peer networking, and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807, Kelly.Collins@sao.wa.gov

Wendy Choy, Assistant Director of Local Audit, (425) 502-7067, Wendy.Choy@sao.wa.gov

Haji Adams, Audit Manager, (425) 900-5277, Haji.Adams@sao.wa.gov

Stacey Chen, Assistant Audit Manager, (425) 900-5319, Stacey.Chen@sao.wa.gov

Ava Maxwell, Audit Lead, (206) 613- 7636, Ava.Maxwell@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Accountability Audit Report

City of Mercer Island

For the period January 1, 2023 through December 31, 2023

Published (Inserted by OS)

Report No. 1036076



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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

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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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, 2023 through December 31, 2023.

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, 2023, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Procurement – public works
- Accounts receivable – utility rates
- Accounts payable – general disbursements
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

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>.

Other reports

We issued an examination report on the City's compliance with Coronavirus State and Local Fiscal Recovery Funds Program Requirements as part of the American Rescue Plan Act of 2021. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

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INFORMATION ABOUT THE CITY

The City of Mercer Island was incorporated in 1960 and operates under the council-manager form of government. Seven councilmembers are elected to serve four-year terms. Among the seven-member body, the City Council elects one of its members to serve a two-year term as Mayor. The Mayor and City Council appoint a City Manager to oversee the administration of City policies and the daily operations as well as its 191 employees.

The City serves approximately 25,000 residents. The City provides a full range of services to the public including general government, public safety, fire, municipal court, street and trails maintenance, parks and recreation activities, public improvements, planning and zoning, permits and inspection, youth and family services, general administrative and water, sewer, and storm water 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 2023, the City's general fund operating budget was approximately \$36.2 million.

Contact information related to this report	
Address:	City of Mercer Island 9611 SE 36th Street Mercer Island, WA 98040
Contact:	LaJuan Tuttle, Deputy Finance Director
Telephone:	(206) 275-7785
Website:	www.mercerisland.gov

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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- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

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Financial Statements Audit Report

City of Mercer Island

For the period January 1, 2023 through December 31, 2023

Published (Inserted by OS)

Report No. 1036042



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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 Financial Statements

Please find attached our report on the City of Mercer Island’s financial statements.

We are issuing this report in order to provide information on the City’s financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mercer Island January 1, 2023 through December 31, 2023

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

Audit Period: January 1, 2022 through December 31, 2022	Report Ref. No.: 1034826	Finding Ref. No.: 2022-001
Finding Caption: The City's internal controls were inadequate for ensuring proper revenue recognition for funds received in advance.		
Background: During 2022, the City received \$3,617,659 in federal financial assistance from the Coronavirus State and Local Fiscal Recovery Funds, which is a program funded through the American Rescue Plan Act of 2021 (ARPA). During the audit period, the City incurred eligible program expenditures of \$1,070,885. In this instance the City received Coronavirus State and Local Fiscal Recovery funds before it incurred eligible expenditures. However, the City did not properly evaluate whether it met revenue recognition criteria for grants it received in advance. Specifically, the City misinterpreted the revenue recognition criteria for the unspent funds, which should be reported as unearned revenue, a liability, until it meets the applicable eligibility requirements.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The 2022 Financial statements were corrected prior to the final audit report being issued per the instructions of the State Audit Office. The statement below was published with the final audit report.</i>		

For the benefit of Mercer Island residents, this matter does not represent any misuse of public funds. Rather, it represents a reporting error involving how the federal funds received were classified for audit reports. The City utilized the guidance from the State Auditor's Office (SAO) along with resources from the US Treasury for State and Local Fiscal Recovery Funds, the Government Finance Officers Association (GFOA), and Governmental Accounting Standards Board (GASB) in determining ARPA reporting requirements. The US Treasury's guidance for distributions to non-entitlement units (NEU) of local government prohibited States from disbursing funds to NEUs on a reimbursement basis. The State Auditors BARS manual and the remittance advice from the Washington State Treasurer's Office both indicated ARPA revenues be coded as "federal revenues, other than grants." On this basis, the City did not consider ARPA funds an expenditure based reimbursable grant throughout the financial statement evaluation and review process. Absent specific direction from the SAO, Management elected to recognize earned revenue as ARPA funds were committed for eligible uses by the City Council. The decision to recognize earned revenue as ARPA funds were committed was discussed in length with the SAO audit team during the 2021 annual financial audit. The audit team gave no indication the City's revenue recognition determination was non-compliant with Generally Accepted Accounting Principles (GAAP). Given fiscal year 2021 audit results, the City used the same revenue recognition criteria in the 2022 annual financial statements. Staff acknowledges that the City's interpretation of the revenue recognition criteria for ARPA funds was inconsistent with that of the SAO. However, the City believes adequate controls and procedures are in place and disagrees with the assessment of a material weakness in internal controls. Once advised of the appropriate revenue recognition criteria for ARPA funds, the City corrected amounts reported in earned and unearned revenue classifications in the 2022 financial statements. Had this explanation been provided in the first year of ARPA reporting (2021), this finding would have been avoided.

INDEPENDENT AUDITOR’S REPORT

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*

City of Mercer Island January 1, 2023 through December 31, 2023

Council
City of Mercer Island
Mercer Island, Washington

We have audited, 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, the financial statements of the City of Mercer Island, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City’s financial statements, and have issued our report thereon dated December 3, 2024.

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by state law and the State Auditor’s *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON 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 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 the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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. 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 City’s financial statements will not be prevented, or detected and corrected on a timely basis. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City’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 financial statements. 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*.

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 City’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 City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this

report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

December 3, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Mercer Island January 1, 2023 through December 31, 2023

Council
City of Mercer Island
Mercer Island, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Mercer Island, as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Mercer Island, and its changes in cash and investments, for the year ended December 31, 2023, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Mercer Island, as of December 31, 2023, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Matters of Emphasis

As discussed in Note 7 to the financial statements, the City elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2023.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2024 on our consideration of the City’s internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

December 3, 2024

ABOUT THE STATE AUDITOR'S OFFICE

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Office of the Washington State Auditor
Pat McCarthy

Report on Compliance with Coronavirus State and Local Fiscal Recovery Funds Program Requirements

City of Mercer Island

For the period January 1, 2023 through December 31, 2023

Published (inserted by OS)

Report No. 1036059



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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 Compliance with Coronavirus State and Local Fiscal Recovery Funds Program Requirements

As part of the American Rescue Plan Act of 2021, the U.S. Department of Treasury provided Coronavirus State and Local Fiscal Recovery Funds (Assistance Listing Number 21.027) to the State and all cities and counties in Washington to provide aid for various purposes in response to the public health emergency.

These funds are federal assistance, subject to audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. In order to provide for more timely and focused audits, the Office of Management and Budget, in the 2023 Compliance Supplement, authorized entities meeting specific criteria to receive a compliance examination engagement in lieu of a regular federal grant audit. Accordingly, the City has elected to demonstrate accountability for these funds through a compliance examination.

Please find attached our report on the City’s compliance with federal requirements.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

INDEPENDENT ACCOUNTANT’S REPORT

City of Mercer Island January 1, 2023 through December 31, 2023

Council
City of Mercer Island
Mercer Island, Washington

We have examined the City of Mercer Island’s compliance with the compliance requirements “activities allowed or unallowed” and “allowable cost/cost principles” (the specified requirements) as described in Part IV “Requirements for an Alternative Compliance Examination Engagement for Recipients that would Otherwise be Required to Undergo a Single Audit or Program-Specific Audit as a Result of Receiving Coronavirus State and Local Fiscal Recovery Funds” of the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) section of the 2023 OMB *Compliance Supplement* (referred to herein as “Requirements for an Alternative CSLFRF Compliance Examination Engagement”) during the year ended December 31, 2023.

Management of the City is responsible for the City’s compliance with the specified requirements. Our responsibility is to express an opinion on the City’s compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in the “Requirements for an Alternative CSLFRF Compliance Examination Engagement.” Those standards and requirements require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above.

An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the City and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our engagement.

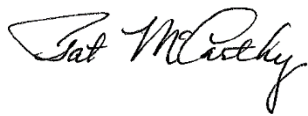
Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City of Mercer Island complied, in all material respects, with the aforementioned requirements during the period January 1, 2023 to December 31, 2023.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; and fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on compliance with the specified requirements. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on compliance with the specified requirements and not for the purpose of expressing an opinion on the internal control over compliance and other matters; accordingly, we express no such opinions.

Our examination disclosed no issues that are required to be reported under *Government Auditing Standards*.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

December 3, 2024

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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December 3, 2024

Office of the Washington State Auditor
40 Lake Bellevue Drive
Suite 123
Bellevue, WA 98005

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of the City of Mercer Island for the period from January 1, 2023 through December 31, 2023. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all relevant and requested information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.

- f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.
10. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.

Additional representations related to the financial statements:

11. We acknowledge our responsibility for fair presentation of the financial statements and believe financial statements are fairly presented in accordance with the *Budgeting, Accounting and Reporting Standards Manual* (BARS Manual), which is a

comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

12. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
13. The financial statements properly classify all funds and activities.
14. Revenues are appropriately classified by fund and account in accordance with the BARS Manual.
15. Expenses are appropriately classified by fund and account, and allocations have been made on a reasonable basis.
16. Ending cash and investments are properly classified as nonspendable, restricted, committed, assigned, and unassigned.
17. The methods, data and significant assumptions we used in making accounting estimates and related disclosures are appropriate and free from intentional bias.
18. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements and other loss contingencies.
19. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you

the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.

20. We acknowledge our responsibility to include all necessary and applicable disclosures required by the BARS Manual, including:
 - a. Description of the basis of accounting, summary of significant accounting policies and how this differs from Generally Accepted Accounting Principles (GAAP).
 - b. Disclosures similar to those required by GAAP to the extent they are applicable to items reported in the financial statements.
 - c. Any additional disclosures beyond those specifically required by the BARS Manual that may be necessary for the statements to be fairly presented.
21. We acknowledge our responsibility for reporting supplementary information the Schedule of Liabilities and the Schedule of Expenditures of Federal Awards in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
22. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
23. We believe the effects of uncorrected financial statement misstatements summarized in the schedule of uncorrected items provided to us by the auditor are not material, both individually and in the aggregate, to the financial statements taken as a whole.
24. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.



Jessi Bon
City Manager



LaJuan Tuttle
Deputy Finance Director



December 3, 2024

To the Office of the Washington State Auditor
40 Lake Bellevue Dr. Suite 123
Bellevue, WA 98005

To the Office of the Washington State Auditor:

We are providing this letter in connection with your examination of City of Mercer Island's compliance with allowable activities and cost principles requirements for expenditures of Coronavirus State and Local Fiscal Recovery Funds (SLFRF, ALN 21.027) federal financial assistance for the period January 1, 2023, through December 31, 2023. Representations are in relation to matters existing during or subsequent to the examination period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your examination. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

1. We have provided you with unrestricted access to people you wished to speak with and made available all relevant and requested information of which we are aware, including:
 - a. Financial records and related data.
 - b. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the examination and the corrective action taken to address significant findings and recommendations.
 - c. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the examination, including communications received between the end of the period examined and the date of your report.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge and understand our responsibility for complying with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of our compliance with the SLFRF federal financial assistance program.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
7. We acknowledge and understand our responsibility for establishing and maintaining effective internal control over compliance with allowable activities and cost principles requirements for expenditures of SLFRF federal financial assistance.
8. We have performed an evaluation of our compliance with the allowable activities and cost principles requirements for expenditures of SLFRF federal financial assistance; and have not identified any known noncompliance during or subsequent to the period examined.
9. We have not identified any compliance requirements that have varying interpretations.
10. We have no known deficiencies in internal control relevant to the City's compliance and any events subsequent to the compliance period that would have a material effect on the City's compliance.
11. We have no knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others related to compliance with the allowable activities and cost principles requirements for expenditures of SLFRF federal financial assistance.
12. We acknowledge our responsibility for compliance with allowable activities and cost principles requirements for expenditures of Coronavirus State and Local Fiscal Recovery Funds (SLFRF, ALN 21.027) federal financial assistance.
13. We have complied with allowable activities and cost principles requirements for expenditures of Coronavirus State and Local Fiscal Recovery Funds (SLFRF, ALN 21.027) federal financial assistance for the period January 1, 2023 through December 31, 2023.



Jessi Bon
City Manager



LaJuan Tuttle
Deputy Finance Director