



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

December 28, 2023

Mayor and City Council
City of Black Diamond
Black Diamond, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our audit of the City of Black Diamond from January 1, 2017, through December 31, 2020. We believe our recommendations will assist you in improving the City's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (253) 893-6628.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Ngan Kim-Hoang Nguyen, CPA, CFE, Audit Manager

Attachment

Management Letter

City of Black Diamond

January 1, 2017 through December 31, 2020

Financial reporting

City management is responsible for designing, implementing, and maintaining internal controls to ensure financial statements, related schedules and notes are fairly presented and provide reasonable assurance regarding their reliability. The City prepares its financial statements in accordance with the cash-basis accounting method prescribed by the *Budgeting, Accounting and Reporting System* (BARS Manual).

State law requires local governments to submit annual financial reports to the State Auditor's Office within 150 days of the end of the fiscal year. The annual report includes financial statements, supporting schedules and notes to the financial statements.

During the fiscal years 2017 through 2020, the City filed its annual reports by the statutory deadlines. However, the annual reports were not ready for audit until much later, which caused significant audit delays as follows:

- The auditable 2017 annual report was not ready for audit until May 16, 2021, which was after the reporting deadline.
- The auditable 2018 annual report was not ready for audit until May 16, 2021, which was after the reporting deadline.
- The auditable 2019 annual report was not ready for audit until February 11, 2022, which was after the reporting deadline.
- The auditable 2020 annual report was not ready for audit until February 11, 2022, which was after the reporting deadline.

Our audit also identified a control deficiency with the City's financial statement preparation and review process that resulted in misstatements. For fiscal year 2019, the City did not properly implement required BARS changes related to Other Post-Employment Benefits (OPEB). While the City correctly reported its OPEB liability of \$546,405 in the notes to the financial statements, the City did not report the OPEB liability on the Schedule 09 (Schedule of Long-Term Liabilities). We also identified other less significant errors in the note disclosures. The City subsequently corrected the misstatements we identified.

We recommend the City strengthen internal controls over its process for preparing financial statements, related schedules and notes, and perform an effective review to ensure they are accurate and complete before submitting them for audit.