

Washington State Auditor's Office - City of McCleary Audit Summary

Overview

The Washington State Auditor conducted accountability and financial statement audits of the City of McCleary for January 1, 2022 through December 31, 2023. The city serves approximately 2,000 residents and has about 30 employees with an annual budget of \$10.8-12.9 million.

Key Audit Findings

1. Payroll Controls Deficiency (Finding 2023-001)

Issue: Inadequate internal controls over payroll operations

- Missing approved pay-rate documentation
- Improper payroll data entry verification
- Incorrect leave cash-out calculations
- Inaccurate retirement contribution calculations
- Federal tax withholding errors
- Unauthorized compensation time usage

Financial Impact:

- \$2,312 overpayment to police officers
- \$106 underpayment to one employee
- \$4,472 overpayment for sick leave cash-out
- \$303,404 in payments lacking proper documentation

2. Procurement Compliance Issues (Finding 2023-002)

Issue: Non-compliance with state procurement requirements

- Emergency exemption improperly declared (\$117,815 contract)
- Missing documentation for transformer purchases (\$72,745)
- "Like-kind" vehicle upgrade purchases not properly aggregated (\$11,309)
- Inadequate staff training on procurement laws

3. Financial Reporting Deficiencies (Management Letter)

Issue: Multiple errors in financial statement preparation

- Staff lacking technical knowledge for financial statements
- Inadequate review processes
- Missing or incorrect supporting documentation
- OPEB liability overstated by \$87,991 (2022) and \$73,968 (2023)
- Various reconciliation discrepancies

4. Cost Allocation Problems (Management Letter)

Issue: Improper cost allocation methodology

- \$569,331 in non-overhead payroll costs allocated inappropriately
- Revenue-based allocation instead of equitable cost-based method
- Non-compliance with BARS Manual requirements

Status of Prior Findings

- **2021-001 (Financial Reporting): ✓FULLY CORRECTED**
- Prior management letter items (Open Public Meetings, Procurement, Cost Allocation):
Some resolved, some ongoing

Progress Already Made ✓

Staff Training Completed:

- Jamie and Nakisha attended Washington State Auditor training session
- Completed 2-day Association of Washington Cities training program

Payroll Documentation System Implemented:

- ✓Created rate documentation sheet system
- ✓Linked all pay increases to contracts and Council approval documentation since Jamie's hire
- ✓Established clear documentation trail for pay rate changes

External Financial Oversight Established:

- ✓Tara CPA contracted in first month of City Administrator hire
- ✓Professional financial reporting review process implemented
- ✓External check on financial statement preparation established

Enhanced Internal Controls - Segregation of Duties:

- ✓Delegated separate signing authority to Mayor, Mayor Pro-Tem, and City Administrator

- ✓ **Separated processing from authorization - Clerk/Treasurer and Deputy Clerk process bills, signers have no access to processing**
- ✓ **Monthly check review process established with backing documentation**
- ✓ **Clear separation between those who prepare and those who approve financial transactions**

Comprehensive Financial Data Management:

- ✓ **All billing, payments, and money received are being input into Spring Brook for accounting verification**
- ✓ **Centralized accounting system for complete transaction tracking**
- ✓ **Enhanced financial data integrity and audit trail capabilities**

Revised Action Plan for City of McCleary

Immediate Actions (0-3 months)

- 1. Complete Payroll Controls Implementation**
 - ✓ **Rate documentation system - COMPLETED**
 - ✓ **Pay increase documentation linking - COMPLETED**
 - ✓ **Segregation of duties for financial transactions - COMPLETED**
 - ✓ **Spring Brook system implementation for comprehensive tracking - COMPLETED**
 - ✓ **Completed checklist and two step verification**
 - **Priority: Reconcile and correct historical over/underpayments (\$6,890 total)**
- 2. Procurement Process Enhancement**
 - ✓ **Leverage AWC training** to develop procurement decision flowchart and checklists
 - **Apply segregation of duties model** to procurement approvals
 - **Utilize Spring Brook system** for procurement tracking and documentation
 - Create emergency procurement procedure with proper Council approval workflow
- 3. Financial Reporting Quality Assurance**
 - ✓ **External CPA oversight - COMPLETED**
 - ✓ **Segregation of duties - COMPLETED**
 - ✓ **Monthly review process with documentation - COMPLETED**
 - ✓ **Spring Brook comprehensive data entry - COMPLETED**
 - Implement enhanced monthly financial statement review process

Short-term Actions (3-6 months)

- 4. Cost Allocation Revision**
 - **Implement the new cost allocation plan** complying with BARS Manual
 - **Use segregated duties system** to ensure proper review of cost allocations
 - **Apply rate documentation system** to ensure accurate payroll cost allocations
 - **Leverage Spring Brook data** for accurate cost allocation tracking
 - Implement cost-based rather than revenue-based allocation methodology

5. Internal Control Enhancement

- ✓ **Segregation of duties framework - COMPLETED**
- ✓ **Spring Brook comprehensive data entry - COMPLETED**
- **Document current control improvements** in written policies and procedures
- **Leverage Tara CPA expertise** for comprehensive internal control assessment
- **Expand documentation review process** to other financial areas

Long-term Actions (6-12 months)

6. Technology and Process Improvements

- ✓ **Spring Brook financial management system fully implemented**
- **Integrate segregated duties workflow** with Spring Brook system capabilities
- **Maintain separation of duties** in technological solutions
- ✓ **We have implemented a monthly process that is completed by internal staff and reviewed by Tara**

7. Governance and Oversight

- **Utilize enhanced internal controls** for Council reporting
- **Combine segregated duties with Tara CPA reports** for comprehensive oversight
- **Leverage Spring Brook reporting capabilities** for enhanced financial transparency
- **Implement regular financial reporting** to governing body with multi-layer review

Significant Progress on Internal Controls

Major Improvement - Comprehensive Financial System:

- **Spring Brook implementation** addresses data integrity and tracking issues
- **All financial transactions centralized** in accounting system for verification
- **Enhanced audit trail capabilities** through systematic data entry
- **Segregation of duties** eliminates single-person control risk
- **Monthly check review with documentation** ensures ongoing oversight

Impact on Audit Findings:

- **Finding 2023-001:** Spring Brook + segregation + documentation significantly reduces payroll error risk
- **Procurement Issues:** Enhanced approval process + system tracking prevents unauthorized purchases
- **Financial Reporting:** Multiple review layers + comprehensive data entry improves accuracy
- **Cost Allocation:** Separation + systematic tracking ensures proper review of allocations

Audit Costs and Schedule

- **Current Audit Cost:** \$45,200 (estimated \$38,900, increased due to elevated audit issues)
- **Next Audit:** Scheduled for 2026
- **Estimated Cost:** \$39,000 plus travel expenses

Positive Developments

- ✓ **Comprehensive Spring Brook financial system implementation**
- ✓ **Comprehensive segregation of duties implemented**
- ✓ **Professional CPA oversight established early in new administration**
- ✓ **Rate documentation system with clear audit trails**
- ✓ **Monthly financial review process with documentation**
- ✓ **Comprehensive staff training completed**
- ✓ **Prior financial reporting finding fully corrected**
- City staff demonstrated cooperation throughout audit process
- Management showed commitment to resolving identified issues

Strong Foundation for 2026 Audit

The City has implemented a comprehensive internal control environment combining:

- **Professional oversight** (Tara CPA)
- **Comprehensive financial system** (Spring Brook with complete transaction tracking)
- **Segregated duties** (separation of processing and authorization)
- **Enhanced documentation** (rate sheets, monthly reviews)
- **Staff training** (State Auditor + AWC training)
- **Systematic reviews** (monthly check reviews with backing documentation)

This comprehensive approach addresses the root causes identified in the audit findings and establishes sustainable controls for ongoing compliance with enhanced technological capabilities.