



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Town of Bucoda

For the period January 1, 2020 through December 31, 2022

Published August 14, 2024

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

August 14, 2024

Mayor and Town Council
Town of Bucoda
Bucoda, Washington

Report on Accountability

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 Town 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 Town's compliance with applicable requirements and safeguarding of public resources for the areas we examined.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Town operations did not comply, in all material respects, with applicable state laws, regulations, and its own policies. Additionally, the Town did not provide adequate controls over safeguarding of public resources in most of the areas we examined.

As referenced above, we identified areas where the Town could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control or area. As a result, we did not provide information on the areas we did not examine.

About the audit

This report contains the results of our independent accountability audit of the Town of Bucoda from January 1, 2020, through December 31, 2022.

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.

We conducted this audit 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 Town'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 we performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2022, 2021 and 2020, the areas we examined were those representing the highest risk of fraud, loss, abuse or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements, credit cards and electronic funds transfers
- Cash receipting – timeliness and completeness of deposits, voids and adjustments
- Payroll – gross wages
- Procurement – public works
- Self-Insurance for unemployment
- Financial condition – reviewing for indications of financial distress
- Open public meetings – compliance with minutes, meetings and executive session requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Town of Bucoda January 1, 2020 through December 31, 2022

2022-001 The Town lacked adequate oversight of its financial activities to ensure the safeguarding of public resources and compliance with state laws.

The Town of Bucoda is in Thurston County and serves a population of about 600 residents. A five-member Council and independently elected Mayor govern the Town, which has two employees. The Town receipted \$667,759, \$1,001,195 and \$437,175 in revenues in 2022, 2021 and 2020, respectively. The Town had \$553,547, \$814,334 and \$457,557 in expenditures in 2022, 2021 and 2020, respectively.

Governments are responsible for designing, implementing and maintaining internal controls to safeguard public resources against misuse or misappropriation, ensure proper documentation and use public resources in compliance with state laws and the *Budgeting, Accounting and Reporting System* (BARS Manual).

Description of Condition

The Town lacked adequate oversight and internal controls to safeguard public resources, which increased the risk of misappropriation and prevented the Town from ensuring compliance with state laws. Our audit identified the following concerns:

Accounts Payable Disbursements

Town staff inconsistently retained supporting documentation for accounts payable disbursements and did not reconcile expenditures to the bank statements to ensure all charges were valid, supported and approved. Specifically, staff did not provide support for 16 of the 44 accounts payable transactions we tested, totaling \$48,559. As a result, we were unable to determine if these transactions were legitimate or allowable. In addition, there were 7 transactions, totaling \$114,955, without support available for review at the time of audit. Subsequently, the Town requested support from vendors and were able to provide supporting documentation. The lack of oversight over accounts payable transactions prevented the Town from ensuring it safeguarded all funds, which increased the risk of misappropriation.

Further, lack of timely bank reconciliations and other accounts payable weaknesses, including not securing check stock, resulted in the Town incurring a loss of \$18,276 from multiple fraudulent checks written on its bank account by unknown people over a period of two months.

Payroll Expenditures

Town staff did not retain employee payroll documentation totaling \$188,949 during the three-year audit period to support time worked, did not document the employee pay rates and did not perform a secondary review of payroll amounts prior to disbursement.

Since the Town was unable to provide supporting documentation for any of the payroll transactions we selected for testing, we were unable to determine if they were appropriate. Without documented pay rates, time-tracking methods and thorough payroll cost reviews, the Town risks inaccurate payroll expenditures.

Cash Receipting

Town staff did not retain supporting documentation to demonstrate monies it collected were accurate and complete. Specifically, no one independently reconciled cash receipts to deposits, or verified that the bank accounts were reflective of all financial activity. Additionally, the Town did not deposit cash receipts within five days as required.

Of the 14 weeks we selected for testing, the Town was only able to provide limited documentation. Inaccurate cash receipting can result in missing receipts and an increased risk of misappropriation of public funds.

Credit Cards

The Town had \$133,159 in credit card purchases during the three-year audit period. Town staff did not retain supporting documentation for 13 of 14 credit card purchases selected for testing. Due to the lack of effective procedures and oversight to ensure it obtained and retained documentation, the Town did not reconcile credit card charges to ensure they were supported and for valid business purposes. Without adequate support and charge review, there is an increased risk that its credit card purchases are not legitimate or allowable.

Procurement

State law requires the Town to solicit bids and keep records for purchases and public works projects meeting or exceeding established thresholds. Specifically, state law requires Towns to use a formal sealed bid procedure when procuring

public works projects that cost more than \$75,500. These laws are designed to promote openness in government and prevent fraud, collusion and favoritism when awarding public contracts.

The Town did not maintain adequate documentation for a \$377,799 public works project to demonstrate compliance with procurement laws. The Town was unable to provide support that it retained all applicable bid packages (including proof of bid bonds) and documentation that the approved contract included prevailing wage and bid bond requirements.

Annual Report Filing

State law requires the Town to submit an annual financial report to our Office within 150 days after the end of the Town's fiscal year. The Town submitted the 2022 annual report 86 days late. Delays in the availability of complete financial reports prevent the public and other interested parties from obtaining timely information. Such delays also hinder public transparency and our Office's efforts to compile statistical and financial information for use by the Legislature and other parties.

Cause of Condition

The Town experienced turnover during the audit period. In addition, the Town did not dedicate adequate time, resources and oversight to ensure it properly trained staff and that they had sufficient knowledge and skills to carry out the responsibilities necessary to safeguard public resources and ensure compliance with state law.

Effect of Condition

The Town's lack of oversight and internal controls increases the risk of misappropriation, misuse of public funds and noncompliance with state law.

In August 2023, the Town notified our office of a loss of public funds from fraudulent checks. The Town did not identify that someone had written and cashed these fraudulent checks until an out-of-state credit union contacted it regarding the authenticity of one of the checks. The Town's bank reimbursed it for this loss.

Recommendation

We strongly recommend the Town implement appropriate oversight and adequate controls over all financial activities to ensure the safeguarding of public resources

and compliance with state laws. In addition, the Town should retain proper documentation to support all its financial activities, as state law requires.

Based on the results of our audit, we specifically recommend:

- Ensuring accounts payable disbursements are adequately supported and allowable, and that it reconciles bank statements monthly
- Maintaining appropriate records to support payroll expenditures, including documenting pay rates for employees and timesheets
- Making deposits in a timely manner, and safeguarding cash that the Town receipts
- Reconciling all credit card purchases to ensure they are adequately supported and allowable
- Training staff adequately on appropriate methods and requirements for procuring goods and services
- Ensure the accurate, complete and timely filing of annual reports to ensure compliance with state law

Town's Response

The Town of Bucoda did lack adequate oversight and internal controls to safeguard public resources, which did increase the risk of misappropriation and prevented the Town from ensuring compliance with state laws.

In the last four years we have had three mayors, three clerk/treasurers, and multiple Public Works employees. The consistent turnover has led to a lack of ensuring compliance with internal policies, procedures, and state laws.

The newest Clerk/treasurer is going through training right now to ensure proper Accounts Payable Disbursements, Payroll Expenditures, Cash Receipting, Credit Card documentation, Procurement practices, and Annual Report Filing. As training has progressed, we have identified and confirmed with the State Auditor's Office that we need to utilize our BIAS systems support to do a financial audit to rectify our system to become in compliance.

Going forward the Town of Bucoda will address all findings discovered and will put in place proper financial oversight to be in compliance with state laws.

Auditor's Remarks

We thank the Town for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting.

Budgeting, Accounting and Reporting System (BARS Manual) – Accounting, Accounting Principles and General Procedures, Internal Control

RCW 43.09.2855 – Local Governments – Use of Credit Cards.

RCW 43.09.240 – Local Government Accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections.

RCW 35.23.352 – Public works – Contracts – Bids – Small works roster – Purchasing requirements, recycled or reused materials or products.

RCW 39.04 – Public Works

RCW 43.09.230 – Local government accounting – Annual reports – Comparative statistics.

INFORMATION ABOUT THE TOWN

The Town of Bucoda, located in Thurston County, was incorporated in 1910 and currently has a population of approximately 595. The Town provides its citizens, directly or through contract, services including public safety, fire prevention, refuse collection, street improvements, parks and recreation and general administrative services. In addition, the Town operates a water system and a recreational campground.

An elected, five-member Council and a separately elected Mayor govern the Town. The Town had two full-time employees for the duration of fiscal years 2020, 2021 and 2022.

Contact information related to this report

| | |
|------------|---|
| Address: | Town of Bucoda 101A East 7th Street Bucoda, WA 98530-0010 |
| Contact: | Callie Carpenter, Mayor |
| Telephone: | (360) 278-3525 |

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Town of Bucoda 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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- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov