



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Winlock

For the period January 1, 2019 through December 31, 2021

Published November 27, 2024

Report No. 1035893



Scan to see another great way
we're helping advance
#GoodGovernment



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

November 27, 2024

Mayor and City Council
City of Winlock
Winlock, Washington

Report on Financial Statements

Please find attached our report on the City of Winlock'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

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.

TABLE OF CONTENTS

Schedule of Audit Findings and Responses.....	4
Summary Schedule of Prior Audit Findings	8
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10
Independent Auditor's Report on the Financial Statements.....	13
About the State Auditor's Office.....	15

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Winlock January 1, 2019 through December 31, 2021

2021-001 The City did not have adequate internal controls ensuring accurate reporting of its financial statements.

Background

State and federal agencies, the City Council and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and the financial statements and notes to the financial statements are accurate.

The City prepares its financial statements in accordance with the cash-basis accounting method prescribed in the *Budgeting, Accounting and Reporting System* (BARS) Manual.

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses as a finding.

Description of Condition

We found the following deficiencies in internal controls that represent a material weakness. The City did not have:

- A process to ensure it routinely performed an adequate bank reconciliation to identify and correct errors affecting the accounting records and financial statements
- An adequate review process over its financial reporting to ensure the information was accurate, complete and in compliance with the BARS Manual

Cause of Condition

The City had turnover in the Clerk-Treasurer position after the audit period. An employee who did not work for the City during the audit period had to file the annual reports for 2019 through 2021. City management did not dedicate sufficient resources to establish adequate oversight procedures to compensate for new employees' lack of experience and training.

Effect of Condition

Delayed and inaccurate accounting records and financial reports limit access to financial information used by City officials, the public, state and federal agencies, and other interested parties. Additionally, these conditions delay the audit process and result in increased audit costs.

We were unable to identify all the errors in the financial statements. However, we did note the following errors in the original financial statements we received for audit. The City:

- Did not have support or explanations for differences of \$135,391, \$78,569 and \$68,200 in ending cash balances between the bank statements and financial statements for fiscal years 2019, 2020 and 2021, respectively. These differences caused errors of the same amounts for the beginning cash balances for fiscal years 2020 and 2021.
- Understated total ending cash and investments by \$326,068 for fiscal year 2021
- Did not have support or explanations for differences we identified in total revenues and expenditures between bank statements and financial statements for fiscal years 2019 and 2021
- Did not report a fund in the general ledger titled "treasurer surplus" that showed (\$683,227) for each of the three fiscal years under audit

The City chose not to perform additional work to identify the cause of the discrepancies in the accounting records and prepare accurate financial statements. As a result, the State Auditor's Office was unable to render an opinion as to whether the financial statements were fairly presented. We disclaimed on the financial statements for the years that ended on December 31, 2021, December 31, 2020, and December 31, 2019, and no financial statements are included with our audit report.

Recommendation

We recommend the City:

- Reconcile its financial records to bank statements promptly, and ensure an independent person reviews the reconciliation for accuracy
- Strengthen internal controls over financial statement preparation to ensure the financial statements are accurate, complete and in compliance with BARS Manual requirements
- Conduct an effective, independent financial statement review that ensures financial statements and notes to the financial statements agree to the underlying accounting records and supporting documentation, and meet reporting standards

City's Response

The City of Winlock appreciates the opportunity to respond to the State Auditor's Office finding for the 2019 – 2021 audit. The city experienced a series of transitions in leadership and key positions during the said timeframe. With the seven-month long vacancy City Clerk/Treasurer the City was left with a large void, primarily within financial management. We experienced little or no knowledge of previous financial processes (including the Treasurer Surplus Fund), tracking methods, policies and procedures. These changes resulted in difficulties with the city's accounts being reconciled correctly and in a timely manner. In late March 2020 the City of Winlock was able to contract with a neighboring city for treasury services to assist with financial services including accounts payable, payroll, reconciliations, and financial reporting.

The contracted help was not receiving financial information that was requested, making it difficult to complete the annual reports correctly and in a timely manner. Incomplete annual reports were filed by the contracted help after multiple requests were disregarded.

In 2023 the city was able to hire a full-time City Treasurer, splitting the position and duties for the Clerk/Treasurer. The first month of employment consisted of months' worth of outstanding financial transactions being reconciled within the accounting system. The new treasurer has been working with SAO for nearly two years to complete this audit. With limited knowledge of prior processes, the inability to locate information, and the change of multiple auditors working on this audit has made it very difficult to complete. Identifying the discrepancies and finding a solution became extremely convoluted. When the City inquired whether

the annual reports from 2019, 2020, and 2021 should be resubmitted, SAO advised that the outcome of the finding decision would not change. The City of Winlock then elected to not waste additional time and public funds on said audit and agreed to have it closed in June 2024. The city has still been unable to reconcile these amounts and will be discussing and seeking guidance from SAO Helpdesk in making prior year adjustments as suggested by the audit team.

New processes have been implemented and internal controls have been improved. Reconciliations are now completed on a monthly basis. Resources, support, and training for all employees is budgeted and highly encouraged. The City Treasurer and the Finance Committee (comprised of the Mayor and two Councilmembers) meet monthly to review the monthly financial reports and processes.

The current leadership is committed to learning from this audit and further their efforts in improving internal controls and providing reliable financial management practices.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.



City of Winlock

323 N.E. First Street/PO Box 777
Winlock, WA. 98596-0777
(360) 785-3811/fax (360) 785-4378
cityclerk@cityofwinlock.com
www.cityofwinlock.com

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Winlock January 1, 2019 through December 31, 2021

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

Audit Period: January 1, 2018 through December 31, 2018	Report Ref. No.: 1024547	Finding Ref. No.: 2018-001	Assistance Listing Number(s): 20.205
Federal Program Name and Granting Agency: Highway Planning and Construction – Department of Transportation, Federal Highway Administration		Pass-Through Agency Name: Washington State Department of Transportation	
Finding Caption: The City did not have adequate internal controls in place to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.			
Background: During fiscal year 2018, the City spent \$1,647,002 in federal Highway Planning and Construction funds for two ongoing construction projects. The Davis-Bacon Act (Act) requires that all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed with more than \$2,000 of federal funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor. The Act includes a requirement for the contractor or subcontractor to submit to the City weekly, for each week in which any contract work was performed, a copy of its payroll and a signed “Statement of Compliance” (weekly certified payroll). The City’s contracted project engineer may collect the weekly certified payrolls during the project, but it is ultimately the City’s responsibility to ensure compliance and maintain the documents in accordance with records retention requirements. The City did not have an adequate process in place to ensure its contracted project engineer collected all weekly certified payroll reports from each of its subcontractors performing work on its federal-grant-funded projects. Page 6 Office of the Washington State Auditor We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.			

The City did not detect that 50 of the 263 weekly certified payroll reports required for subcontractors were not collected. Without adequate internal controls, the City cannot demonstrate workers were paid prevailing wages as required by the Act. The City could be liable for paying additional wages if prevailing wages were not paid.

Status of Corrective Action: (check one)

☒ Fully
Corrected

☐ Partially
Corrected

☐ Not Corrected

☐ Finding is considered no
longer valid

Corrective Action Taken:

The staff that was responsible for these processes is no longer employed with the City of Winlock. Once the current staffing was made aware of this issue, processes were put into place to ensure that all certified payrolls would be collected and retained. We will continue to provide training and guidance to new staff as well.

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 Winlock January 1, 2019 through December 31, 2021

Mayor and City Council
City of Winlock
Winlock, Washington

We were engaged to audit, 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 Winlock, as of and for the years ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 20, 2024. Our report disclaims an opinion on such financial statements because we were not able to obtain financial statements that supported the financial activities of the City for the years ended December 31, 2021, 2020, and 2019, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our engagement to audit the financial statements of the City, 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.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001, that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the City, 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 engagement, and accordingly, we do not express such an opinion.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our engagement and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the engagement to audit of the financial statements and, accordingly, we express no opinion on the response.

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 engagement to perform 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

November 20, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Winlock January 1, 2019 through December 31, 2021

Mayor and City Council
City of Winlock
Winlock, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Disclaimer of Opinion

We were engaged to audit the financial statements of the City of Winlock for the year ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements.

We do not express an opinion on the accompanying financial statements of the City of Winlock. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain appropriate audit evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on the financial statements. The statements are not included in our report.

Basis for Disclaimer of Opinion

The City did not provide accurate financial statements or supporting schedules for the periods ended December 31, 2021, 2020, and 2019, and therefore, representations of the City's financial activities were not available for audit. Further, the City did not retain sufficient documentation in support of transactions to allow us to evaluate the fair presentation of revenues and expenditures for the periods ended December 31, 2021, 2020, and 2019. Bank statement records did not match amounts reported on the financial statements therefore we were unable to evaluate the fair presentation of cash balances. The City's records do not permit the application of other auditing procedures to evaluate the fair statement of revenues and expenditures.

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 responsibility is to conduct an audit of the City's financial statements 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. However, because of the matter(s) described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the City of Winlock and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Other Matters Regarding Disclaimer of Opinion

As the statutory auditor of all public accounts in the state of Washington we are precluded from withdrawing from the audit engagement, regardless of the matters described in the Basis for Disclaimer of Opinion paragraph.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

November 20, 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.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- 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