



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Millwood

For the period January 1, 2021 through December 31, 2023

Published March 31, 2025

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

March 31, 2025

Mayor and City Council
City of Millwood
Millwood, 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

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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, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

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

We also noted certain matters related to employee compensation that we communicated to City management and the Mayor and City Council in a letter dated March 21, 2025. We appreciate the City's commitment to resolving those matters.

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 Millwood from January 1, 2021 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 years ended December 31, 2023, 2022 and 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – credit cards
- Selected IT security policies, procedures, practices and controls protecting financial systems – user access
- Cash receipting – timeliness and completeness of deposits
- Payroll – overtime
- 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

City of Millwood January 1, 2021 through December 31, 2023

2023-001 The City lacked adequate oversight to ensure credit card disbursements were for allowable public purposes, which resulted in a loss of public funds.

Background

The City is responsible for designing and following internal controls that provide reasonable assurance it is complying with state laws and policies, as well as safeguarding public resources. A five-member Council and a Mayor govern the City. The Mayor and City Treasurer oversee the City's daily operations, maintain financial records, prepare the annual financial reports, and oversee disbursements. The City reported operating expenditures of approximately \$1.9 million, \$2.3 million and \$2.5 million in 2021, 2022 and 2023, respectively. These expenditures included credit card activity totaling \$45,000, \$76,900 and \$57,700 in 2021, 2022 and 2023, respectively.

Description of Condition

The City lacked adequate procedures over credit card activity to safeguard public resources. The City did not ensure each charge was for an allowable use of public funds and that it obtained and retained supporting documentation for all credit card transactions to demonstrate that transactions were for valid public purposes. Further, the City did not maintain documentation to demonstrate it complied with City policy to review monthly credit card statements and to obtain preapproval before making credit card purchases. Specifically, we identified the following:

Mayor's credit card

We found the Mayor used his assigned City credit card to make personal purchases between August 17, 2021, and January 12, 2024, totaling \$3,292.66. Personal purchases included fuel, clothing, meals, lodging and private business expenses for the Mayor's personal benefit or for his personal business. The Mayor acknowledged the personal charges and said he used the City's credit card by mistake. He reimbursed the City in January 2024 for personal purchases totaling \$876.74 that he made in December 2023 and January 2024. He reimbursed the City for the remaining amount on February 28, 2025.

We reviewed the Mayor's credit card transactions and found neither he nor the City had adequate support for several transactions to demonstrate their business purpose, resulting in \$7,319 in questionable purchases between January 12, 2021, and September 12, 2024. These questionable transactions included Amazon purchases and purchases of hardware, conference/class registrations, meals, airfare and lodging for which the Mayor did not provide receipts to demonstrate their valid business purposes. Finally, we identified \$479 of unsupported subscription payments for various business applications and services; we confirmed the Mayor uses these subscriptions for City business and therefore did not question these purchases.

Other City staff credit cards

We reviewed credit card transactions made by other City staff including the City Treasurer, former Public Works Director, former City Clerk and utilities supervisors. We identified \$77 in questionable purchases for three meals that the City could not demonstrate were for a valid business purpose. Further, we identified \$2,950 of unsupported subscription payments for various business applications and services, which we confirmed City staff regularly use for City business. Therefore, we did not question these purchases.

Cause of Condition

The City did not revoke credit card usage when it identified a pattern of unallowable and unsupported charges, as City policy requires. The City also did not withhold wages to recover unsupported or unallowable charges as its policy allows. Further, City staff did not know they should document their monthly review of credit card statements and also did not know that City policy required them to preapprove credit card transactions before purchase. Finally, the City Council relied on City staff to follow policies and make allowable charges without adequate oversight.

Effect of Condition

The Mayor made personal purchases totaling \$3,292.66 between August 2021 and January 2024. On February 7, 2025, we notified the Mayor our report would recommend the City seek recovery of the remaining \$2,415.92 in personal purchases. On February 28, 2025, the date we shared this finding with the City, the Mayor provided the City with a personal check for \$2,415.92.

Additionally, we consider 67 credit card transactions totaling \$7,397 to be questionable because they lacked adequate supporting documentation and we could therefore not conclude whether they were allowable and served a public purpose. We also identified 51 credit card transactions totaling \$3,429 for unsupported subscription payments. Although unsupported, we confirmed they were for allowable business applications that City staff used. Therefore, we are not questioning these purchases.

Finally, we could not identify evidence that any of the 53 credit card statements we tested were appropriately reviewed by the credit card administrator or that each transaction was preapproved before purchase as City policy requires.

Inadequate internal controls over credit card activity increases the risk that management could not detect a loss or misappropriation of public funds quickly, if at all.

Recommendation

We recommend the City strengthen internal controls over credit card disbursements to ensure all expenditures it pays using public funds are for valid, public purposes and are adequately supported. Additionally, we recommend the City follow its policy to review monthly credit card statements, obtain preapproval before purchasing, and retain documentation demonstrating compliance.

City's Response

The City of Millwood acknowledges the finding in the audit regarding oversight and credit card disbursements. The City appreciates the seriousness of the concerns raised in the audit and will strengthen our policy and processes to safeguard public resources and comply with state law.

The City will strengthen its internal controls over credit card disbursements to ensure all expenditures paid by the City using public funds are for valid, public purposes and are adequately supported. The City will further investigate all purchases deemed questionable in the audit and pursue recovery of all unallowable and unsupported credit card charges identified in the audit. On February 28, 2025, payment in the amount of \$2,415.92 was made to the City to address personal purchases made by the Mayor using a City credit card, with proof of payment submitted to State Auditor's Office that same day.

To address the deficiencies identified in the audit, the City will implement the following measures:

1. Credit Card Usage Policies:

- The City will review and, as necessary, strengthen its policy regarding credit cards to ensure it provides clear guidance and is in accordance with applicable law and the best practices for credit card programs published by the Office of the Washington State Auditor.*
- The City will issue City credit cards to employed department heads with a business need to use a City credit card, and will not issue any City credit cards to any elected or appointed City officials.*
- The City credit card policy will require cardholders to reconcile charges and transactions and submission of documentation to the City's Credit Card Administrator in a timely fashion.*
- The City will enforce stricter adherence to its credit card policy by revoking credit card privileges from any employee that demonstrates a pattern of misuse or risk to public resources.*
- Reoccurring purchases, such as subscriptions, will be limited to one credit card issued to and under the sole control of one City employee.*
- The City will explore implementing a fuel card system, provided such fuel card system provides an efficient, available and cost-effective alternative to use of a credit card to fuel City vehicles.*
- The City will actively enforce the policy.*

2. Enhanced Oversight and Documentation:

- The City Credit Card Administrator will not be issued a City credit card to allow for independent review of all City credit card purchases.*
- The City will require detailed documentation for all credit card transactions to establish their public purpose before payment by the City.*
- In connection with strengthening the City credit card policy, the City will strengthen its review process for transactions, including monthly review by the City Council Finance Committee of all credit card charges and disclosure by the Credit Card Administrator to the City Council Finance Committee of any misuse or risk to public resources by any City credit card holder.*

3. Training and Accountability:

- *City employees will receive training regarding the City credit card policy and acknowledge their receipt of such training and agreement to comply with the policy as a condition of being issued a City credit card to use for allowable and supported charges.*
- *City elected and appointed officials who may be reimbursed for use of their personal credit card for costs related to official City business will receive training regarding the City credit card policy and acknowledge their receipt of such training and agreement to comply with the policy as a condition of reimbursement of allowable and supported charges.*
- *All training will emphasize documentation requirements and any consequences for violation of the City's credit card policy.*

The City will take appropriate corrective actions to address the concerns raised in the audit and will regularly report progress on implementing these measures, in accordance with the Recommendation of the State Auditor's Office.

The City appreciates the professional guidance provided by the State Auditor's Office and will work closely to resolve all outstanding matters. The City is committed to accountability and stewardship of public funds.

Auditor's Remarks

We appreciate the City's commitment to resolving this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting Systems (BARS) Manual – Accounting – Principles and Controls, Internal Controls, Sections 3.1.3.20 and 3.1.3.30

Budgeting, Accounting and Reporting Systems (BARS) Manual – Purchase Cards, Section 3.8.4

RCW 43.09.2855, Local governments – use of credit cards, local governments are authorized to use credit cards for official government purchases and acquisitions.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Millwood January 1, 2021 through December 31, 2023

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

Audit Period: January 1, 2015 through December 31, 2017	Report Ref. No.: 1023535	Finding Ref. No.: 2017-001
Finding Caption: The City lacked adequate internal controls and personnel policies to properly document and approve employee compensation.		
Background: The City did not have policies and procedures established for payroll, including employee compensation and benefit allowance programs. The City lacked adequate segregation of duties over the payroll process and written documentation supporting the final approval salaries or hourly wage rates. We found 13 out of 23 employee pay stubs tested from 2017 contained payments outside of the Council approved salary and wage rates. For nine of those pay stubs, the City did not consistently pay employees on either an hourly or salary basis. Further, the City provided additional compensation to employees in the form of deferred compensation through a benefit allowance program, which the City treated as benefits but is considered compensation in Washington Administrative Code and by the Internal Revenue Service. The City's contributions to employees' deferred compensation plans were \$73,264, \$58,632 and \$61,037 during 2017, 2016 and 2015, respectively, which were not approved by Council and did not have federal payroll taxes applied.		
Status of Corrective Action: (check one) ☒ Fully Corrected ☐ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid		
Corrective Action Taken: <i>The City is in the final edit stage of an updated policy and procedures manual that will include language regarding compensation and benefit allowance programs. The City has implemented an electronic timekeeping program for all regular employees. Time is approved by the employee, supervisor, and payroll clerk prior to uploading to the payroll software. This creates a payroll entry that is segregated from payroll duties and once uploaded, cannot be edited.</i>		

Final payroll review is performed by either the Mayor or City Clerk prior to processing payroll payments.

The city has added a section to the Budget Ordinance Schedule of Compensation for Benefit Allowance approved by the council.

The city engaged a certified public accounting firm to calculate and prepare Internal Revenue Service amended returns for the payroll tax amounts owing, and once approved an amended return will be filed.

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, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Millwood serves approximately 1,925 citizens in Spokane County. It is administered by a mayor-council form of government. There are five elected Council Members and an independently elected Mayor.

The City operated on an annual budget of \$3,553,911 in 2021, \$3,576,686 in 2022 and \$3,108,479 in 2023. Its seven employees provide services including water, sewer, street, park, planning and economic development.

Contact information related to this report

Contact:	Debb Matkin, City Treasurer
Telephone:	509 924-0960
Website:	millwoodwa.us

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Millwood at <https://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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