



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of McCleary

For the period January 1, 2022 through December 31, 2023

Published July 21, 2025

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

July 21, 2025

Mayor and City Council
City of McCleary
McCleary, 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 findings.

We also noted certain matters related to cost allocation that we communicated to City management and the Mayor and City Council in a letter dated July 14, 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 McCleary from January 1, 2022 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 and 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – gross wages, overtime, leave balances and accruals, benefit deductions, retirement contributions, leave cash outs
- Procurement – purchases
- Cost allocation plan – equitable distribution of indirect costs

- Cash receipting – timeliness and completeness of deposits
- Accounts Payable – general disbursements
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of McCleary January 1, 2022 through December 31, 2023

2023-001 The City lacked adequate internal controls to ensure employee salaries and wages, overtime wages, leave accruals, and leave cash-outs were valid and adequately supported.

Background

The City of McCleary is in Grays Harbor County and serves a population of about 2,000 residents. A five-member Council and independently elected Mayor govern the City, which has about 30 employees.

The City spends about \$3 million in payroll-related expenditures annually. The Town is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance it safeguards public resources and uses them in compliance with applicable state laws and the *Budgeting, Accounting and Reporting System* (BARS) manual. The Clerk-Treasurer is responsible for overseeing city operations including payroll and disbursements.

Description of Condition

The City lacked effective internal controls over payroll to ensure it safeguarded public resources and complied with state law. Specifically, the City did not retain approved pay-rate documentation for all employees or verify:

- Payroll data was entered properly into the system
- Leave cash-outs calculations were in accordance with City policy
- Retirement plan contributions were correctly calculated
- Federal income tax withholding amounts were based on employee W-4s
- Compensation time used was actually earned

Cause of Condition

During the audit period, the City had turnover in the Clerk-Treasurer position. Specifically, two Clerk-Treasurers held the position over the two-year audit period and the City hired a third Clerk-Treasurer in December 2024. Management and the City Council did not provide sufficient oversight over payroll to ensure pay was accurate, valid and supported.

Effect of Condition

The City cannot demonstrate it paid employees appropriately when it lacks approved pay-rate and supporting documentation. The City is susceptible to misappropriation or misuse of public resources when it lacks adequate oversight and monitoring of payroll disbursements. Additionally, the City did not comply with its internal policies and employment agreements, which resulted in underpayments and overpayments to employees. Specifically, our audit found the City:

- Overpaid police officers we selected for testing a total of \$2,312 because Field Training Officers (FTO) were paid at a higher rate through the system than they should have been paid. The City caught this error and corrected it as of the November 2023 pay cycle.
- Underpaid one employee \$106 in fiscal year 2023 because it paid them at a rate less than their contracted rate.
- Overpaid one employee \$4,472 in fiscal year 2022 because the City incorrectly paid them their full hourly rate for a sick leave cash-out, instead of one-third their hourly rate, as required by City policy.
- Manually changed the amount of income tax the City owed to the IRS during the payroll process for April 2023. Specifically, an employee's withholding for federal income tax was manually adjusted to a negative number, and these changes were not based on the employee's W4.
- Did not identify that one employee used 5.75 hours more compensation time in fiscal year 2022 than they had earned.

Our audit also found the City was unable to provide the following supporting documentation:

- Pay-rate documentation for two of four police officers selected for testing for fiscal year 2022. As a result, we were unable to determine whether these employees' gross wages were valid. The total amount paid to employees with missing pay-rate information was \$107,155 for fiscal year 2022.
- Approved pay-rate documentation for three of eight employees tested within the Administration and Public Works departments. As a result, we were unable to determine whether these employees' gross wages were valid. The total amount paid to these employees for fiscal year 2022 was \$196,001, and \$149,248 in fiscal year 2023.

- Support for discrepancies between the police overtime rates paid and our calculated overtime rate based on employee salaries and hourly rates. We noted total overpayments of \$471 and total underpayments of \$238.
- Pay-rate documentation for five of the eight employees selected for leave cash-out testing during the audit period. As a result, we could not determine whether the City made these cash-outs in accordance with the applicable contracts. The total amount of the leave cash-outs tested that were lacking supporting pay-rate information was \$63,039.
- Documentation to support minor differences between the percentage of pay contributed to retirement plans versus the percentage of pay required to be contributed by the Department of Retirement Systems for both fiscal years under audit. We further noted that some employees were contributing less than the required amount, while others were contributing more than the required amount. This resulted in minor variances.

Recommendation

We recommend the City:

- Implement adequate controls over entering data into the payroll system to ensure data and parameters entered for payroll items are accurate and agree to the corresponding contracts
- Document and retain support for approved pay rates when a new employee is hired or receives a promotion outside of the normal pay increase related to their wage scale
- Implement controls to provide a thorough review of employee payroll to ensure pay is accurate and supported
- Determine the extent of the over/under payments and conduct additional legal review to determine if any further actions are advisable or required by law

City's Response

The City agrees with the SAO's findings and recommendations. The City understands the importance of internal controls over payroll. The City has implemented a payroll review process which includes the following: Verifying changes requested in payroll are approved and documented before processing. Reviewing timesheets and leave requests for accuracy and appropriate approvals. Keeping better organized and detailed payroll records, reevaluating policies and procedures and seeking out additional training resources.

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

RCW 43.09.200 – Local government accounting – Uniform system of Accounting

Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Controls, Internal Control, Controls over Financial Reporting

Budgeting Accounting and Reporting System (BARS) manual, 3.1.3, Internal Controls, puts responsibility of internal controls on management and the governing body.

Fair Labor Standards Act of 1938. 20 *U.S. Code* §207

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of McCleary January 1, 2022 through December 31, 2023

2023-002 The City did not have adequate controls to ensure compliance with state procurement requirements.

Background

City management is responsible for establishing effective internal controls to ensure compliance with state law. Procurement laws are intended to prevent fraud, collusion, and favoritism when awarding public contracts and purchasing goods and services.

State law (RCW 35.23.352) and the City's policy require the City to use a formal sealed bid process when purchasing supplies, materials or equipment costing more than \$7,500. Like-kind items are commodities that could be purchased in bulk or sporadically throughout the year. Without adequate consideration of like-kind purchases, there is a risk that when combined, these items exceed the bid threshold. The City is expected to evaluate items for purchase based on the information it has at the time of purchase. The City should not disaggregate purchases solely for the purpose of getting the individual purchases below bidding requirements (known as bid splitting).

When purchasing electronic data processing and telecommunication systems, equipment (including computer hardware), software and services, the City may use an alternative competitive negotiation process described in state law (RCW 39.04.270), rather than through the normal competitive bidding process.

State law (RCW 39.04.280) provides for exemptions to bidding procedures under specific circumstances. One of these circumstances is an "emergency exemption." In the event of an emergency situation, the law allows the City to declare an emergency exemption to bid laws, waive competitive bidding requirements, and award all necessary contracts on behalf of the City to address the emergency. The law also requires the governing body or its designee to write and officially record a finding that an emergency exists within two weeks after the award of the contract.

Description of Condition

Our audit identified the following concerns related to the City's compliance with state laws for purchasing. Specifically:

- The Mayor declared an emergency exemption to waive competitive bidding because the City's server crashed, and they entered into a contract totaling \$117,815. However, the City could not provide documentation to support that the Council found and approved the existence of an emergency.
- The City purchased 10 transformers totaling \$72,745. City management said they used formal sealed bidding to procure these items; however, the City was unable to provide documentation to support this.
- The City made seven individual purchases for vehicle upgrades on the same day to the same vendor totaling \$11,309. This was a purchase of "like-kind items" and should have been evaluated as one purchase when determining the applicable procurement requirements.

Cause of Condition

The City experienced significant turnover in key positions and staff responsible for procurement did not have an adequate training in the applicable requirements.

Effect of Condition

The City cannot provide documentation to demonstrate that it complied with procurement requirements for formally declaring emergency exemptions and properly bidding purchases and "like-kind items".

As a result, the City cannot guarantee all interested contractors and vendors had the opportunity to be considered. Also, the City did not allow for full and open competition and cannot be sure it received the most competitive prices.

Recommendation

We recommend the City:

- Strengthen internal controls over procurement to ensure compliance with state laws when making purchases
- Provide adequate training to key employees to ensure they understand procurement requirements including how to determine the cost of a project or purchase to ensure the District follows the proper procurement method
- Ensure staff keep documentation of purchases to demonstrate compliance with state laws

City's Response

The City agrees with the SAO's findings and recommendations. The City understands the importance of compliance with state procurement requirements. Current staff are aware of procurement and records retention requirements.

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

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

RCW 39.04.270 – Electronic data processing and telecommunications systems – Municipalities – Acquisition method – Competitive negotiation – Findings, intent.

RCW 39.04.280 – Competitive bidding requirements – Exemptions

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 McCleary was incorporated in 1943 and currently serves 1997 citizens in Grays Harbor County. It is administered by a mayor-council form of government with five elected Council Members and an independently elected Mayor. The City operated on budgets of \$10.8 million for fiscal year 2022 and \$12.9 million for fiscal year 2023. The City has 27 employees that provide an array of services including; water, sewer, storm water, electricity, public safety, street improvement, parks and recreation and general administrative services.

Contact information related to this report

Contact:	Jamie Vinyard, City Clerk-Treasurer
Telephone:	(360) 495-3667
Website:	www.cityofmccleary.com

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of McCleary 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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