



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: City of Warden

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2019 through December 31, 2021 – see draft report.
- Financial statement audit for January 1, 2019 through December 31, 2021 – see draft report.

Audit Highlights

- We appreciate District staff responding to all our requests and providing documents electronically to complete the audit remotely.
- All District staff were helpful and informative throughout the audit process, especially Kris who was patient and attended our weekly status update meetings. These meetings are important as they allow us to follow up on requests and ask any necessary questions.

Recommendations not included in the Audit Reports

Management Letters

Management letters communicate control deficiencies, noncompliance, or abuse with a less-than-material effect on the financial statements or other items significant to our audit objectives. Management letters are referenced, but not included, in the audit report. We noted certain matters that we are communicating in a letter to management related to its cost allocation plan.

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or noncompliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Status of Prior Management Letter items

Brief Description	Partially Resolved	Unresolved
Financial statement preparation	X	

Financial Statement Audit Communication

We would like to bring the following to your attention:

- Uncorrected misstatements in the audited financial statements are summarized on the attached schedule. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements. However, the conditions that led to these misstatements may result in more significant misstatements if not corrected.
- The audit addressed the following risks, which required special consideration:
 - Due to the possibility that management may be able to circumvent certain controls, standards require the auditor to assess the risk of management override.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$25,650 and actual audit costs will be approximately \$26,073 due to an increase in our hourly rate that started on January 1st.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2025 and will cover the following general areas:

- Accountability for public resources for fiscal year 2022, 2023 and 2024
- Financial statement 2022, 2023 and 2024

The estimated cost for the next audit based on current rates is \$27,000 plus travel expenses, if any. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

If expenditures of federal awards are \$750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal Single Audit requirements. Federal awards can include grants, loans, and non-cash assistance like equipment and supplies.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics,

training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation at the Office of the Washington State Auditor offers services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean process improvement, peer-to-peer networking, and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Office of the Washington State Auditor
Pat McCarthy

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Financial Statements Audit Report

City of Warden

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

Published (Inserted by OS)

Report No. 1032167



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Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Mayor and City Council
City of Warden
Warden, Washington

Report on Financial Statements

Please find attached our report on the City of Warden's financial statements.

We are issuing this report in order to provide information on the City's financial activities and condition.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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.

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Warden

January 1, 2019 through December 31, 2021

2021-001 The City's internal controls over preparing financial statements were inadequate for ensuring accurate reporting.

Background

City management, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance the City's financial statements, notes and required schedules are reliable and prepared and presented fairly in accordance with the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified deficiencies in the City's internal controls that hindered its ability to produce accurate financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate significant deficiencies in internal controls, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Our audit found deficiencies in the City's internal controls over financial reporting that, when taken together, represent a significant internal control deficiency. Specifically, the City did not have internal controls in place to:

- Understand and correctly calculate its other postemployment benefit (OPEB) liability
- Perform a secondary review of its financial statements and schedules to detect and correct errors before submitting them for audit

In addition, the City operates an equipment fund, but has not conducted the necessary accounting research to properly account for and report fund activity.

Cause of Condition

City management and staff did not perform the necessary research to understand how to report OPEB liabilities, and they were under the impression that the

insurance premium paid on behalf of the retiree was the amount that should be reported. In addition, City employees did not know they needed an actuary to calculate the OPEB liability or that they could use the alternative measurement method described in the BARS Manual.

The City did not retain the original ordinance establishing the equipment fund, and it has been transferring money between funds for equipment replacement based on budgeted amounts without establishing rental and replacement rates or researching the appropriate accounting treatment for equipment rental and replacement funds. The City has been working on establishing equipment rental and replacement rates; however, it has not had enough resources to dedicate the necessary time to complete this process.

Further, the City's small size and limited staffing make it more challenging to perform an effective secondary review of the financial statements before submitting them for audit.

Effect of Condition

As a result of the internal control weakness, we identified the following errors:

- The City incorrectly calculated its OPEB liability on the Schedule of Liabilities for a total understatement of \$536,629, \$565,118 and \$388,429 for 2019, 2020 and 2021, respectively.
- The City transferred \$102,359, \$97,455 and \$91,080 to the equipment fund, which is a subfund of the general fund, in 2019, 2020 and 2021, respectively. These transfers were based on budgeted amounts instead of the actual benefit received from the use of the equipment. In addition, these transactions should have been reported as a payment for services instead of as a transfer.
- The City incorrectly classified ending cash and investments for the equipment rental fund as unassigned instead of assigned, which totaled \$478,983, \$475,699 and \$491,151 in 2019, 2020 and 2021, respectively.
- The City misclassified loan proceed revenues of \$217,584 as intergovernmental revenues for 2019.
- The City overstated the CCW Lift 2 liabilities on the Schedule of Liabilities by \$239,699 for 2021.

The City also had other immaterial presentation errors on the statements, notes to the financial statements and accompanying schedules. The City subsequently corrected most of these errors.

Recommendation

We recommend the City:

- Perform adequate research on new accounting standards to ensure they are implemented and reported correctly
- Locate the original ordinance establishing the equipment fund or approve a new ordinance over the use of these funds
- Report equipment rental and replacement activities as an internal service fund, and set rates that are equitable, fair and sufficient to cover the costs and operations for equipment replacement
- Establish an effective technical review process for the financial statements, notes and schedules to ensure they are accurate, supported, classified and reported in accordance with the BARS Manual

City's Response

The City of Warden appreciates the efforts of the State Auditor's Office. The City acknowledges the SAO's assessment of the limited staffing size and resources used for reporting compliance.

Responsibility of financial reporting is taken seriously by the City. Corrective Measures to be taken: 1) Time and effort to understand the reporting requirements. (2) A checklist will be used for the secondary review of financial statements in the reporting process. (3) Update the equipment accounting process.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit, and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

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.

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 Warden January 1, 2019 through December 31, 2021

Mayor and City Council
City of Warden
Warden, Washington

We have audited, 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 Warden, 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 March 7, 2023.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 that we consider to be significant deficiencies.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, 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 audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 audit 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 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 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.



Pat McCarthy, State Auditor

Olympia, WA

March 7, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

Mayor and City Council
City of Warden
Warden, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Warden, as of and for the years ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Warden, and its changes in cash and investments, for the years ended December 31, 2021, 2020 and 2019, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Warden, as of December 31, 2021, 2020 and 2019, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Matters of Emphasis

As discussed in Note 6 to the 2021 and 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

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 objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, 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 a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS Manual. These schedule are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2023 on our consideration of the City's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

March 7, 2023

FINANCIAL SECTION

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

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fund Resources and Uses Arising from Cash Transactions – 2020
Fund Resources and Uses Arising from Cash Transactions – 2019
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2020
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019
Notes to Financial Statements – 2021
Notes to Financial Statements – 2020
Notes to Financial Statements – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020
Schedule of Liabilities – 2019

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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- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
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- 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



Office of the Washington State Auditor
Pat McCarthy

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Accountability Audit Report

City of Warden

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

Published (Inserted by OS)

Report No. 1032124



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Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Mayor and City Council
City of Warden
Warden, 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

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.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

However, we noted certain matters related to cost allocation that we communicated to City management and the Mayor and City Council in a letter dated March 7, 2023. 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

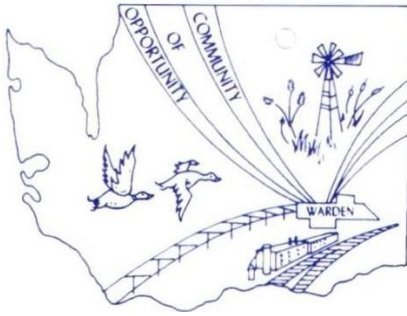
This report contains the results of our independent accountability audit of the City of Warden from January 1, 2019 through December 31, 2021.

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, 2021, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Self-insurance for unemployment compensation
- Cost allocation plan – equitable distribution of indirect costs
- Accounts receivable – billing and adjustments for utilities
- Accounts payable – general disbursements and electronic funds transfers
- Payroll – gross wages and overtime
- Cash receipting – timeliness and completeness of deposits, voids and adjustments
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



City of Warden

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Warden

January 1, 2019 through December 31, 2021

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

Audit Period: January 1, 2016 - December 31, 2018	Report Ref. No.: 1025132	Finding Ref. No.: 2018-001
Finding Caption: The City did not have adequate controls over the allocation of shared costs to restricted funds.		
Background: <p>Cities may charge costs incurred for their central service functions, such as general administration, human resources, payroll and purchasing, to the funds that benefit from the services. Cities should charge costs in proportion to the benefit received. The City has a responsibility to adopt a fair and equitable method of distributing shared costs among departments and funds and to record the benefit received when applying these charges. In addition, state law prohibits resources restricted for specific uses, such as utilities that collect usage-based fees from citizens, from benefitting or subsidizing other government functions.</p> <p>The City did not have a written methodology for how it calculated and charged shared services to all funds and departments. We communicated this issue to City management during the past two audits. However, the steps taken by management did not sufficiently address prior audit recommendations, causing a higher percentage of unsupported administrative costs charged to restricted resources than in prior years. As a result, the City made unsupported salary and benefit allocations to its restricted funds, such as utility funds, totaling about \$152,600 and \$154,400 for fiscal years 2017 and 2018, respectively.</p>		
Status of Corrective Action: (check one) <div> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid </div>		

Corrective Action Taken:

The City developed a written methodology for how to calculate and charge shared services to all funds and departments. Salary and benefit allocations were reviewed and proportioned costs were adjusted as necessary. Other shared costs have been charged to the appropriate funds as identified. Shared costs that were budgeted were not reconciled to actual costs.

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

That report includes a finding for a significant deficiency in internal controls over financial reporting regarding the financial statement preparation.

INFORMATION ABOUT THE CITY

The City of Warden, located in Grant County, was incorporated on June 16, 1910. The City is a general-purpose government and provides public safety, street improvement, parks and recreation, health and social services, and general administrative services. In addition, the City owns and operates a water-sewer system. Services including water, sewer, garbage, and police are provided to approximately 2,500 residents.

The City operates with a Mayor-Council form of government. Five members are elected to Council and the Mayor is independently elected. The Council appoints management to oversee the City's daily operations as well as its 15 full-time employees. For fiscal years 2019, 2020 and 2021, the City operated on annual budgets of approximately \$8 million, \$7.5 million and \$6.5 million, respectively.

Contact information related to this report	
Address:	City of Warden 121 S. Main Street Warden, WA 98857-9651
Contact:	Kristine Shuler, Clerk-Treasurer
Telephone:	(509) 349-2326
Website:	www.cityofwarden.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Warden 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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- Email:
webmaster@sao.wa.gov



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

March 7, 2023

Mayor and City Council
City of Warden
Warden, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the City of Warden from January 1, 2019 through December 31, 2021. We believe our recommendations will assist you in improving the City's internal controls and compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (509) 454-7849.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Ann Strand, Audit Manager

Attachment

Management Letter

City of Warden

January 1, 2019 through December 31, 2021

Cost Allocation

Cities may charge costs incurred for their central service functions, such as human resources, payroll, general administration and purchasing, to the funds that benefit from them. Cities should charge costs in proportion to the benefit that the funds receive. The City has a responsibility to adopt a fair, equitable method of distributing shared costs among departments and funds, and to record the benefit received when applying these charges. The City's cost allocation plan should describe:

- The specific costs to be allocated
- Which funds or accounts the costs will be allocated to
- The allocation basis used
- When the allocation will be made
- Specific calculations used to determine the allocation

In addition, state law prohibits resources restricted for specific uses, such as utilities that collect usage-based fees from citizens, from benefitting or subsidizing other government functions.

The City received a prior audit recommendation for not having a written methodology for how it calculated and charged shared services. Since then, the City has a documented cost allocation plan, but it is not yet fully developed. We noted the following areas for improvement:

- There is not enough detail on the types of general fund services that will be allocated and how the City will allocate costs for each service.
- The plan does not indicate when the allocations will be made or contain the methodology for calculating the cost for each service; it only states that departments will be directly charged.
- The plan includes equipment replacement costs; however, if the equipment replacement fund is for internal service activities, it should not be included in the cost allocation plan that is used for central services. Equipment rental and replacement funds are internal service funds and should operate on a cost reimbursement basis.

We recommend the City continue to develop and follow a written methodology that governs how it calculates and charges shared services costs to all funds. We also recommend the City periodically review and update the cost allocation plan.

LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD

March 7, 2023

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of City of Warden for the period from January 1, 2019 through December 31, 2021. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all relevant and requested information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. Except as discussed with you, we have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records, notwithstanding immaterial uncorrected items referenced below.
10. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.
11. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.

Additional representations related to the financial statements:

12. We acknowledge our responsibility for fair presentation of the financial statements and believe financial statements are fairly presented in accordance with the *Budgeting, Accounting and Reporting Standards Manual* (BARS Manual), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
13. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
14. The financial statements properly classify all funds and activities.
15. Revenues are appropriately classified by fund and account in accordance with the BARS Manual.

16. Expenses are appropriately classified by fund and account, and allocations have been made on a reasonable basis.
17. Ending cash and investments are properly classified as nonspendable, restricted, committed, assigned, and unassigned.
18. Significant assumptions we used in making accounting estimates are reasonable.
19. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements and other loss contingencies.
20. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
21. We acknowledge our responsibility to include all necessary and applicable disclosures required by the BARS Manual, including:
 - a. Description of the basis of accounting, summary of significant accounting policies and how this differs from Generally Accepted Accounting Principles (GAAP).
 - b. Disclosures similar to those required by GAAP to the extent they are applicable to items reported in the financial statements.
 - c. Any additional disclosures beyond those specifically required by the BARS Manual that may be necessary for the statements to be fairly presented.
22. We acknowledge our responsibility for reporting supplementary information such as: the Schedule of Liabilities in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
23. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.

24. We believe the effects of uncorrected financial statement misstatements summarized in the schedule of uncorrected items provided to us by the auditor are not material, both individually and in the aggregate, to the financial statements taken as a whole.
25. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

Tony Massa
Mayor

Kristine Shuler
Clerk-Treasurer

Aggregation of misstatements

2019

Statement / Schedule	Description
C4	Yellow flag report. BARS Code 59438, 59435 and 59434 are BARS codes for PUDs only. Totals \$9,057, \$32,623 and \$53.
C4	Fund 001- 550 Natural and Economic Environment should be \$47,645 instead of \$44,145 for a difference of \$3,500(0%)(from GL557-20-42)
C4	Fund 001- 589 Custodial activities should be \$4,485 instead of \$12,486 for a difference of \$8,000 (0%)

2020

Statement / Schedule	Description
Schedule 09	The due date column should have the appropriate due dates instead of 1/1/1900

2021

Statement / Schedule	Description
C4	Fund 001 340-Charges for goods and services should be \$11,093 instead of \$12,743 for a difference of \$1,650 (0%)