Office of the Washington State Auditor
Pat McCarthy

January 23, 2023

Mayor and City Council
City of Woodland
Woodland, 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 Woodland from January 1, 2020 through December 31, 2021. We believe our recommendations will assist you in improving the City's internal controls 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 (360) 260-6409.

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,

Lindsay Osborne

Lindsay Osborne, Program Manager

Attachment

Management Letter
City of Woodland
January 1, 2020 through December 31, 2021

Financial operations

In accordance with the *Budgeting, Accounting and Reporting System* (BARS) manual, section 3.1.3, governments are required to develop internal controls that adequately safeguard public resources. These controls should help governments prevent and quickly detect misappropriation or misuse of public resources, and assign responsibility to employees charged with custody of assets.

In prior audits, we have communicated concerns related to the lack of segregation of duties in the City's finance department. While the City had taken steps to address the concerns, our current audit found the City reorganized its finance department due to turnover. We evaluated the City's internal controls over key financial operations and identified the following issues:

Accounts payable

Staff responsible for processing accounts payable transactions have conflicting responsibilities, such as generating checks, performing the bank reconciliations, initiating electronic funds transfers (EFTs), signing checks, and modifying vendor information. In addition, staff responsible for processing accounts payable provide the information that is used during the review processes, and neither staff or management validate the information to ensure it is complete and accurate.

Payroll

Staff responsible for processing payroll have conflicting responsibilities, such as changing wage rates, initiating and processing direct deposits, and adjusting leave balances. In addition, while staff perform a final review of payroll, the review does not include benefit or leave balance information. As a result, staff would not be able to detect if changes were made to benefit or leave balance amounts.

We also found that staff calculate overtime rates manually with no oversight to ensure they are accurate and in accordance with collective bargaining agreements. As a result, our testing identified that the City used inconsistent overtime rates to pay one employee, which resulted in a $600 overpayment.

The City's collective bargaining agreement allows for extra pay if employees obtain certifications related to their positions. Our testing found the City does not have a process to ensure the extra pay is supported and calculated accurately. As a result, the City overpaid one employee about $624 in 2021 due to unsupported certification pay.

Lastly, staff have to estimate time worked, as timesheets are due before the end of the month. This results in timesheet adjustments in the following month if estimated time does not agree with actual

time worked. Staff do not adequately review these adjustments to ensure they are accurate. Our testing found the City paid one employee twice for the same 12 hours of overtime worked, resulting in a $640 overpayment.

Banking

Multiple employees have access to the deposit before it is taken to the bank. As a result, the City would be unable to assign responsibility to an employee if funds were misappropriated. Also, while staff perform an independent review of the bank reconciliation, it is not detailed enough to identify if additional disbursement activity occurred that had not been previously approved.

The City does not have an effective independent review to compensate for these internal control weaknesses. When employees perform incompatible duties without adequate oversight and monitoring, and cash receipts are not properly safeguarded, the City reduces its ability to assign responsibility if a loss were to occur. This also increases the risk of errors and irregularities occurring without staff or management promptly detecting them, if at all.

We recommend the City evaluate its processes to ensure it does not assign incompatible duties to the same employee, or establish adequate compensating controls when segregating incompatible duties is not possible. Additionally, we recommend the City improve its controls over payroll to ensure employees are paid the correct wages and amounts are supported.