



**GRANITE FALLS WASHINGTON**

GATEWAY TO THE MOUNTAIN LOOP

City of Granite Falls  
215 S. Granite Avenue / P.O. Box 1440  
Granite Falls, Washington 98252

P 360/691-6441  
F 360/691-6734  
[www.ci.granite-falls.wa.us](http://www.ci.granite-falls.wa.us)

**DIAL-IN CONTACT PHONE NUMBER: (US) +1(253) 215-8782/MEETING ID: 811 0736 6477**

The City of Granite Falls will hold an in-person and online (hybrid) meeting in the Civic Center at 7:00 PM on January 4, 2023. Contact information is above for joining the meeting by telephone. You can also join by computer at the Zoom meeting link: <https://us06web.zoom.us/j/81107366477>. Whether in advance of the meeting by comment sent or emailed to the City Clerk, in person, by phone or computer connection, public comment is encouraged.

**CITY COUNCIL MEETING**

**JANUARY 4, 2023**

**7:00 PM**

**AGENDA**

1. CALL TO ORDER
2. FLAG SALUTE
3. ROLL CALL
4. CONSENT AGENDA
  - A. AB 001-2023 Approval of December 7, 2022 Minutes
  - B. AB 002-2023 Approval of January 4, 2023 claims checks #413029 through 413048 totaling \$31,470.17
5. STAFF REPORTS
6. PUBLIC COMMENTS/RECOGNITION OF VISITORS-NON ACTION ITEMS  
(Public comments are encouraged for items that are and are not action items on this Agenda. Comments may be submitted in advance by writing or e-mailing the City Clerk, or made in person, or by telephone or computer connection at the time of the meeting. Individual comments will be limited to three minutes. Group comments will be limited to five minutes.)
7. NEW BUSINESS
  - A. AB 003-2023 SAO 2020-2021 Exit Audit
8. CURRENT BUSINESS
9. MAYOR'S COMMENTS (5 minutes)
10. COUNCIL COMMENTS (15 minutes)
11. CITY MANAGER (5 minutes)

**12. ADJOURNMENT**

**The City of Granite Falls strives to provide access and services to all members of the public.**

**Notice - All proceedings of this meeting are sound recorded  
Except Executive Sessions.**



Agenda Bill # 001-2023

## CITY COUNCIL AGENDA BILL

**Subject:**

AB 001-2023 Approval of December 7, 2022 Minutes

**Meeting Date:** Wednesday, January 4, 2023

**Date Submitted:** December 7, 2022

**Originating Department:** City Clerk

**Action Required:**

Approval of consent agenda

**Clearances:**

☐ Mayor

☐ Police

☐ Public Works

☐ Attorney

**Exhibits:**

[12/07/2022 Minutes](#)

☐ Engineering

☐ Planning

☐ Other: \_\_\_\_\_

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**Budgeted Amount:**

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**Summary Statement:**

The city council minutes are the official action taken and direction given at the meetings of the city council. Any councilmember may remove items from the consent agenda for discussion and the items would be voted on separately from the other consent agenda items.

**Background:**

**Recommended Motion:**

- 1) Motion to approve the minutes as written. This can be accomplished as part of the motion to approve the consent agenda.
- 2) Move to amend the [state date] minutes and approve the minutes as amended.



**GRANITE FALLS**

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Granite Falls, Washington 98252

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www.ci.granite-falls.wa.us

**CITY COUNCIL  
MEETING MINUTES  
DECEMBER 7, 2022  
7:00 PM**

**1. CALL TO ORDER (Via In-Person & Online Via Zoom)**

**Mayor Hartman** called the City Council Meeting to order at 7:00 PM.

**2. FLAG SALUTE**

**Mayor Pro Tem Glenn** led the Council, Staff and Audience in the Pledge of Allegiance to the Flag.

**3. ROLL CALL**

City Council

Mayor Matthew Hartman	Absent
Steven Glenn	Present
Tom FitzGerald	Present
Erin Hogan	Present
David Griggs	Present

City Staff

City Clerk Darla Reese  
City Manager Brent Kirk  
Deputy City Manager Jeff Balentine

Consultants

Thom Graafstra – Thompson, Guildner & Assoc.  
Police Chief Tom Dalton – S.C.S.O.

**Councilmember Glenn** moved to excuse Councilmember Hartman due to business trip.  
Councilmember Hogan seconded. Motion carried.

**4. CONSENT AGENDA**

- A. AB 143-2022 Approval of November 2, 2022 Minutes**
- B. AB 144-2022 Approval of November 9, 2022 Minutes**
- C. AB 145-2022 Approval of November 16, 2022 Minutes**
- D. AB 146-2022 Approval of December 7, 2022 claims checks #412942 through #412995 and One EFT totaling \$450,045.38**
- E. AB 140-2022 Approval of October 16, 2022 through November 15, 2022 payroll claims checks #27471 through #27477 and Thirty-Five EFT's totaling \$166,457.14**
- F. AB 141-2022 Approval of November 16, 2022 through November 30, 2022 payroll claims checks #27478 and Twenty EFT's totaling \$107,673.43**

**Councilmember Hogan** moved to approve the Consent Agenda as is. Councilmember Griggs seconded. Motion carried.

## **5. STAFF REPORTS**

**City Manager Kirk** gave a Community Planning & Development update due to Director Jensen's absence.

**City Manager Kirk** gave a Public Works update on the following information:

- Crosswalks on Alpine updates
- Lightning control box by Shell has been fixed
- CCTV conduit put in at Frank Mason Park
- Hydrant leakage found on Grand
- Smoots Lift Station – foreign objects found in the sewer
- Waste Management Contract capped at 8% and all rates increasing at 8%.
- Galena St. project update – met with engineer today
- TIB Grant update = city received both grants we applied for

**Deputy City Manager Balentine** gave the following financial updates:

- Financial summary was emailed out to Council
- Close out for month is looking good
- Passport office = Sunday, we met the annual revenue plan (at 3,000 applicants)

**Consultant Police Chief Dalton** gave an update on yearly training, evaluations, missing person in the area and vehicle prowls at night.

*Staff reports halted due to the start of the public hearing – will resume after hearing*

## **7. NEW BUSINESS**

### **A. AB 149-2022 Public Hearing – 7:10 PM, or soon thereafter, For consideration of the 2023 Budget**

**Councilmember Griggs** moved to open the public hearing. Councilmember Hogan seconded. Motion carried.

**City Clerk Reese** entered the following exhibits into the record:

- Exhibit 1 – Public Hearing Notice dated November 18<sup>th</sup> and 25<sup>th</sup> 2022, 1 page
- Exhibit 2 – Verification of Public Hearing Posting dated November 18, 2022, 1 page
- Exhibit 3 – Proposed Ordinance No. 1035-2022, 3 pages
- Exhibit 4 – 2023 Budget Totals, 29 pages

Exhibit 5 – 2023 Final Budget Review, 53 pages

**Deputy City Manager Balentine** updated the Councilmembers that the only change made to the budget since the last meeting and public hearing of November 15, 2022, was the addition of \$150,000.00 to repair the old city hall building.

**Mayor Pro Tem Glenn** opened the public comment portion of the meeting.

No one from the audience or on-line chose to comment.

**Mayor Pro Tem Glenn** closed the public comment portion of the meeting.

**Councilmember Hogan** moved to close the public hearing. Councilmember Griggs seconded. Motion carried.

**Councilmember Griggs** moved to adopt Ordinance No. 1035-2022, an Ordinance of the City of Granite Falls, Washington, adopting the 2023 Annual Budget providing estimated revenues and appropriated expenditures for the operation of the City. Councilmember Hogan seconded. Motion carried.

## **6. PUBLIC COMMENTS/RECOGNITION OF VISITORS-NON-ACTION ITEMS**

**Fred Cruger, 7020-230<sup>th</sup> Ave. NE, Granite Falls 98252**

Mr. Cruger indicated the museum is willing to help with the interior of the old city hall to make it more usable as it is a historic property.

## **7. NEW BUSINESS**

### **B. AB 150-2022 Consideration of Approval of GMA Update Grant Agreement**

**Councilmember Hogan** moved to approve Grant Agreement and authorize City Manager to sign. Councilmember Griggs seconded. Motion carried.

### **C. AB 151-2022 Gray & Osborne Presentation on the 2022 Water System Plan and Water Use Efficiency Goals**

**Consultant Engineers Stacey Clear, P.E. and Russell Porter, P.E.**, gave a power point presentation on the Water System Plan and Water Efficiency Goals. This discussion included information on the following slides:

- Water System Plan
- Existing Water System Facilities
- Water Demand Projections

- Water Use Efficiency
- System Analysis – Water Quality
- System Analysis – System Capacity
- System Analysis – Distribution System
- Capital Improvement Program
- Financial Program
- Next Steps
- Questions

## 8. CURRENT BUSINESS

There were no Current Business items for the Agenda.

## 9. MAYOR'S COMMENTS

**Mayor Hartman** was absent from the meeting.

## 10. COUNCIL COMMENTS

**Mayor Pro Tem Glenn** spoke about the following items:

- Happy to see sidewalk safety stuff going up
- Tree lighting
- Granite Falls High School food/cash drive wrapping up on December 12th
  - Giving trees are located at each of the schools

**Councilmember Hogan** mentioned she went shopping last Saturday for the Fire Department's Christmas House.

**Councilmember Griggs** attended the tree lighting event and is looking forward to the Santa Cruise next week. He also commented on the Legion Building and requested formal liability on the city if the building falls down and buying options.

**Councilmember FitzGerald** stated he hopes everyone has a wonderful holiday.

## 11. CITY MANAGER

**City Manager Kirk** gave an update on the Chamber of Commerce meeting.

**12. EXECUTIVE SESSION per RCW 42.30.110(1)(i) Legal Ramifications of a Course of Conduct (10 minutes) with possible action to follow and RCW 42.30.110(1)(g) Review Performance of a Public Employee (30 minutes)**

8:07 PM –

**Councilmember Griggs** moved to recess into executive session for 40 minutes under 110(1)(g) and 110(1)(i) to evaluate the performance of a public employee and to review legal ramifications of a course of conduct with possible action to follow with regards to the legal ramifications matter. Councilmember Hogan seconded. Motion carried.

8:47 PM –

Council exited executive session.

**Councilmember Hogan** moved to approve settlement agreement with contract and authorize City manager to sign. Councilmember Griggs seconded. Motion carried.

**12. ADJOURNMENT**

**Mayor Pro Tem Glenn** adjourned the meeting.

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City Clerk Darla Reese, MMC

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Mayor Matthew Hartman





Agenda Bill # 002-2023

## CITY COUNCIL AGENDA BILL

**Subject:**

AB 002-2023 Approval of January 4, 2023 claims checks  
#413029 through 413048 totaling \$31,470.17

**Meeting Date:** Wednesday, January 4, 2023

**Date Submitted:** December 30, 2022

**Originating Department:** City Treasurer

**Action Required:**

Approval of consent agenda

**Clearances:**

☐ Mayor ☐ Police

☐ Public Works ☐ Attorney

**Exhibits:**

☐ Engineering ☐ Planning  
☒ Other: City Manager & Finance Director

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**Budgeted Amount:**

001 Current Expense = \$17,107.43

101 Streets = \$2,270.57

401 Water = \$3,079.55

403 Sewer = \$7,411.48

405 Storm Drainage = \$1,601.14

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**Summary Statement:**

Claims are for December 22, 2022 through January 4, 2023.

**Background:**

**Recommended Motion:**

- 1) Motion to accept the claims as presented. This can be accomplished as part of the motion to approve the consent agenda.
- 2) Motion to amend the claims and approve the [state change] claims as amended.



Agenda Bill # N/A

## CITY COUNCIL AGENDA BILL

**Subject:**  
City Council Reports

**Meeting Date:** Wednesday, January 4, 2023  
**Date Submitted:** December 30, 2022

**Originating Department:** City Clerk

**Action Required:**  
N/A

**Clearances:**  
☐ Mayor ☐ Police  
☐ Public Works ☐ Attorney

**Exhibits:**  
[01/04/2023 City Clerk Report](#)

☐ Engineering ☐ Planning  
☐ Other: \_\_\_\_\_

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**Budgeted Amount:**

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**Summary Statement:**

Attached, please find the City Clerk's Staff Report for your review and information.

**Background:**

**Recommended Motion:**

## **City Clerk Staff Report January 4, 2023**

### ***Business Licenses (Outside City):***

#### ***NW Builder Group LLC***

8228 S 206<sup>th</sup> St.

Kent, WA 98032

General contracting services for new single and multi-family properties within the greater Puget Sound area

#### ***The Repairman LLC***

6532-110<sup>th</sup> Ave. NE

Lake Stevens, WA 98258

Contractor, construction

#### ***Prolific Construction LLC***

7715-13<sup>th</sup> St. SE

Lake Stevens, WA 98258

Contractor, construction, real estate investment

### ***Building Permits Issued:***

#### ***Denise Brocker***

123 N. Bogart Ave.

Residential forced air furnace

***Building Permit #2022-088***



Agenda Bill # 003-2023

## CITY COUNCIL AGENDA BILL

**Subject:**

AB 003-2023 SAO 2020-2021 Exit Audit

**Meeting Date:** Wednesday, January 4, 2023

**Date Submitted:** December 30, 2022

**Originating Department:** City Treasurer

**Action Required:**

N/A

**Clearances:**

☐ Mayor

☐ Police

☐ Public Works

☐ Attorney

**Exhibits:**

[Exit Item Handout](#)

[City of Granite Falls Exit Packet](#)

☐ Engineering

☐ Planning

☒ Other: Deputy City Manager

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**Budgeted Amount:**

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**Summary Statement:**

The documents from the SAO were finally provided to the city staff on Monday, January 3, 2023. We have uploaded them into the Council packet today, Wednesday, January 4, 2023 and have provided Council with a full packet print out as well.

**Background:**

**Recommended Motion:**

N/A



Exit Recommendations  
City of Granite Falls  
Audit Period Ending: December 31, 2021

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We are providing the following exit recommendations for management's consideration. They are not referenced in the audit report. We may review the status of the following exit items in our next audit.

**Accountability:**

**Safeguarding of Assets Policy**

We found the City has a policy over safeguarding of small and attractive assets; however, we noted it does not include all recommended best practices for tracking and monitoring assets. Specifically, the policy does not address:

- Proper segregation of duties between purchasing, receiving, disposal, list maintenance, inventory and reconciliation functions
- Clarification on "valuable", current the policy states these are valuable items but City practice is those over \$500
- Procedures for updating the asset listing when items are moved or reassigned
- Procedures or expectations for tracking items in between inventory cycles
- Procedures on reconciling variances in inventories

We recommend the City strengthen its policies and procedures over safeguarding small and attractive assets by addressing the missing best practice items within its policy.

**Safeguarding of Assets**

We tested the City's controls and asset listing for small and attractive assets and found the asset listing information was incomplete for some assets, including tag numbers, serial numbers, location, or custodian. However, we were able to identify all assets based on description. We also found incompatible duties between purchasing, receiving, and inventory roles.

We recommend the City update its asset listing with all germane information and ensure proper segregation of duties when assigning roles to staff.

**Cash Receipting - Cash Counts**

We performed cash counts as part of our cash receipting review. While we were counting cash received for the day, the staff in charge of the cash left the room.

We recommend the custodian of cash keep custody and remain present of funds, even during auditor cash counts, until properly transmitted.



Exit Recommendations  
City of Granite Falls  
Audit Period Ending: December 31, 2021

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**Cash Receipting Policy**

We reviewed the City's policies and procedures for cash receipting and found it contained many of the recommended areas, but found some areas of weakness. Specifically:

- Use of pre-numbered receipts
- Authorized amounts and procedures for change funds
- Procedures for voids and cash-backs
- Procedures for refunds and no-sale transactions

Some of these items, such as the use of pre-numbered receipts are already a part of City procedures, but not formally documented as part of the policy. We also observed City staff use the same till to process transactions, which makes it difficult to assign responsibility for normal overages/shortages, and potentially misappropriation.

We recommend the City consider adopting these elements are part of the cash receipting policy to make it stronger and mitigate loss, due to error or fraud. We also recommend the City find ways to segregate duties and till use to help mitigate loss and help assign responsibility.

**Executive Session Documentation**

We reviewed City Council meetings and found six instances where executive sessions did not appear to comply with the Open Public Meetings Act (RCW 42.30). Specifically, we found in these instances the City did announce how long the executive session would last, but did not announce the time the session would end as required by RCW 42.30.110.

We recommend the City document the time when the executive session will be concluded, in addition to the length, to comply with state law.



## Office of the Washington State Auditor

### Pat McCarthy

### Exit Conference: City of Granite Falls

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, 2020 through December 31, 2021 – see draft report.
- Financial statement audit for January 1, 2020 through December 31, 2021– see draft report.

#### Audit Highlights

We would like to extend our appreciation for timely responses to the audit requests and all the work that Jeff Balentine, Deputy City Manager put into the audit which helped us to stay very efficient throughout the audit. It was a pleasure working with him on this audit. We also appreciate the City's timely annual filing and willingness to accommodate an early audit.

#### 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 federal expenditures.

##### **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.

## Financial Statement Audit Communication

We would like to bring the following to your attention:

- We didn't identify any material misstatements during the audit.
- 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.

We did not become aware of any instance in which a material misstatement of the financial statements has or may have resulted from fraud or suspected fraud.

## 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 \$33,000 and actual audit costs are expected to come in under budget by \$2,000 due to savings in travel costs as a result of conducting a remote audit.

### **Your Next Scheduled Audit**

Your next audit is scheduled to be conducted in 2024 and will cover the following general areas:

- Accountability for public resources
- Financial statement

The estimated cost for the next audit based on current rates is \$37,000, including travel expenses. 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](mailto:Center@sao.wa.gov).

### Questions?

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

**Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807, [Kelly.Collins@sao.wa.gov](mailto:Kelly.Collins@sao.wa.gov)**

**Wendy Choy, Assistant Director of Local Audit, (425) 502-7067 [Wendy.Choy@sao.wa.gov](mailto:Wendy.Choy@sao.wa.gov)**

**Kristina Baylor, Program Manager, (425) 951-0290, [Kristina.Baylor@sao.wa.gov](mailto:Kristina.Baylor@sao.wa.gov)**

**Amanda Robinson, CGFM, Assistant Audit Manager, (425) 510-0477, [Amanda.Robinson@sao.wa.gov](mailto:Amanda.Robinson@sao.wa.gov)**

**Irina Frolova, Audit Lead, (425) 510-0495, [Irina.Frolova@sao.wa.gov](mailto:Irina.Frolova@sao.wa.gov)**

Attachment: Listing of Uncorrected Items in the Audited Financial Statements

2020	
Statement / Schedule	Description
C5	The following amounts do not meet the criteria to be reported as fiduciary funds:
	389 30 01 02 Land Use Deposits Pass-through - \$31,100
	389 10 01 00 Refundable Deposits - Civic Center Rental - \$0
	389 30 01 03 Permit Engineering Pass-through - \$11,150
	589 10 01 00 Refund of Deposits - Civic Center Rental - \$0
	589 40 00 01 Developer Costs Pass-through - \$90,869
	Total misclassification of \$133,119

2021	
Statement / Schedule	Description
C5	The following amounts do not meet the criteria to be reported as fiduciary funds:
	389 30 01 02 Land Use Deposits Pass-through - \$73,400
	389 10 01 00 Refundable Deposits - Civic Center Rental - \$400
	389 30 01 03 Permit Engineering Pass-through - \$8,841
	589 10 01 00 Refund of Deposits - Civic Center Rental - \$200
	589 40 00 01 Developer Costs Pass-through - \$8,592
	Total misclassification of \$91,433



Office of the Washington State Auditor  
Pat McCarthy

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

## **Accountability Audit Report**

# **City of Granite Falls**

**For the period January 1, 2020 through December 31, 2021**

*Published (Inserted by OS)*

Report No. 1031750



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## Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Council  
City of Granite Falls  
Granite Falls, 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](mailto: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 federal expenditures that we communicated to City management and the Council in a letter dated January 4, 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 Granite Falls from January 1, 2020 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 and 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Cash receipting – passport services and timeliness and completeness of deposits at City Hall
- Tracking and monitoring of theft sensitive assets, such as computers, tools and equipment
- Accounts payable – Federal Coronavirus Aid, Relief, and Economic Security (CARES) grant expenditures and electronic funds transfers
- Software conversion – general ledger and payroll module

- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

## 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>.



## INFORMATION ABOUT THE CITY

The City of Granite Falls was incorporated in 1903 and currently serves approximately 4,705 Snohomish County citizens. The City provides an array of services including public safety, utility services, street maintenance and parks and recreation to its residents.

An elected, five-member Council and an appointed City Manager govern the City. The City Manager appoints management with the City Council's approval, to oversee the City's daily operations as well as its 14 full time employees. For 2020, the City operated on annual budget of \$6,876,371 and for 2021 the annual budget was \$6,320,890.

### Contact information related to this report

Address:	City of Granite Falls P.O. Box 1440 Granite Falls, WA 98252
Contact:	Darla Reese, City Clerk
Telephone:	(360) 691-6441
Website:	ci.granite-falls.wa.us

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the City of Granite Falls 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](http://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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- Toll-free Citizen Hotline:  
(866) 902-3900
- Email:  
[webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov)



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

January 4, 2023

Mayor and City Councilmembers  
City of Granite Falls  
Granite Falls, 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 Granite Falls from January 1, 2020 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 (425) 951-0290.

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,

A handwritten signature in black ink that reads "Kristina Baylor".

Kristina Baylor, Program Manager

Attachment

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

**Federal Expenditures**

The purpose of the Coronavirus Relief Fund (CRF) program is to provide payments to governments to cover necessary expenditures incurred because of the COVID-19 pandemic. During the 2021 fiscal year, the City spent \$175,500 in program funds to cover additional costs incurred because of the COVID-19 pandemic, and it used a portion of this funding to establish a program that provided direct assistance to local businesses financially affected by the pandemic. To help facilitate this process, the City passed resolution 2020-08 and collaborated with a local nonprofit organization to advertise the program, receive and review applications, and provide the funding to the approved small businesses.

Our audit found the City passed \$50,000 of its CRF award to the nonprofit without first establishing a formal agreement or contract for this service, or identifying the nonprofit as a subrecipient of federal funds. Without an appropriate contract in place, the payment of federal funds to the nonprofit could be at risk of being considered a gift of public funds, which is a violation of Article VIII, Section 7 of the Washington State Constitution.

Further, the City established the program's rules, including the sample award letter, scoring criteria, grant agreement, and four eligibility criteria. Management and staff thought self-certification was sufficient and relied on the applicants to self-certify, but did not have a process to verify eligibility requirements. One of these criteria was to have a valid City and state business license as of March 2020. Our audit found six of the 14 awards tested did not meet eligibility criteria of having a valid license with both the state and City as of March 2020.

We recommend the City:

- Establish contracts or agreements with all outside parties when entering into a service arrangement
- Provide adequate training to staff responsible for administering federal programs
- Dedicate the necessary time and resources to staying updated on program guidance and ensuring compliance with all program requirements
- Verify that beneficiaries of public funds meet all of the City's eligibility criteria before awarding the funds



Office of the Washington State Auditor  
Pat McCarthy

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

# Financial Statements Audit Report

## City of Granite Falls

For the period January 1, 2020 through December 31, 2021

*Published (Inserted by OS)*

Report No. 1031749



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

Issue Date – (Inserted by OS)

Council  
City of Granite Falls  
Granite Falls, Washington

**Report on Financial Statements**

Please find attached our report on the City of Granite Falls 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](mailto:webmaster@sao.wa.gov).*

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## 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 Granite Falls January 1, 2020 through December 31, 2021**

Council  
City of Granite Falls  
Granite Falls, 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 Granite Falls, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 4, 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.

## 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*.

## 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

January 4, 2023

## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### City of Granite Falls January 1, 2020 through December 31, 2021

Council  
City of Granite Falls  
Granite Falls, Washington

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Unmodified and Adverse Opinions

We have audited the financial statements of the City of Granite Falls, as of and for the years ended December 31, 2021 and 2020, 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 Granite Falls, and its changes in cash and investments, for the years ended December 31, 2021 and 2020, 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 Granite Falls, as of December 31, 2021 and 2020, 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.

## **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 schedules 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 taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 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

January 4, 2023

## **FINANCIAL SECTION**

### **City of Granite Falls January 1, 2020 through December 31, 2021**

#### **FINANCIAL STATEMENTS**

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

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2021  
Schedule of Liabilities – 2020



## 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](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

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**LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD**

January 4, 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 Granite Falls for the period from January 1, 2020 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. 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.

**Additional representations related to the financial statements:**

10. 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.
11. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
12. The financial statements properly classify all funds and activities.
13. Revenues are appropriately classified by fund and account in accordance with the BARS Manual.
14. Expenses are appropriately classified by fund and account, and allocations have been made on a reasonable basis.
15. Ending cash and investments are properly classified as nonspendable, restricted, committed, assigned, and unassigned.
16. Significant assumptions we used in making accounting estimates are reasonable.

17. 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.
18. 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.
19. 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.
20. We acknowledge our responsibility for reporting supplementary information (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.
21. 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.
22. We believe the effects of uncorrected financial statement misstatements summarized in the attached are not material, both individually and in the aggregate, to the financial statements taken as a whole.

23. 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.

---

Brent Kirk – City Manager

---

Jeff Balentine – Deputy City Manager

## Attachment A: Uncorrected Items

2020	
Statement / Schedule	Description
C5	The following amounts do not meet the criteria to be reported as fiduciary funds:
	389 30 01 02 Land Use Deposits Pass-through - \$31,100
	389 10 01 00 Refundable Deposits - Civic Center Rental - \$0
	389 30 01 03 Permit Engineering Pass-through - \$11,150
	589 10 01 00 Refund of Deposits - Civic Center Rental - \$0
	589 40 00 01 Developer Costs Pass-through - \$90,869
	Total misclassification of \$133,119

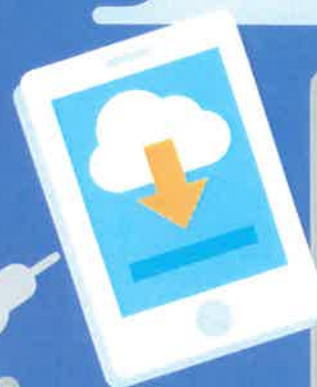
2021	
Statement / Schedule	Description
C5	The following amounts do not meet the criteria to be reported as fiduciary funds:
	389 30 01 02 Land Use Deposits Pass-through - \$73,400
	389 10 01 00 Refundable Deposits - Civic Center Rental - \$400
	389 30 01 03 Permit Engineering Pass-through - \$8,841
	589 10 01 00 Refund of Deposits - Civic Center Rental - \$200
	589 40 00 01 Developer Costs Pass-through - \$8,592
	Total misclassification of \$91,433



# Best Practices for Internal Controls Over Small and Attractive Assets

Small and attractive assets are below the government's established capitalization threshold for financial statement reporting purposes, and might be susceptible to loss, theft or misuse. These assets last longer than a year, are typically mobile and might be easily replaced through a procurement system without raising suspicion. Although they can vary by government, some examples include:

- Computers, laptops, notebooks, shop tools, public works power equipment, handheld radios, other electronics, monitors, tablets, phones, cameras, firearms, tasers and related accessories, televisions, video equipment



Tracking and inventorying these assets reduce the possibility of misappropriation, and detect misappropriation should it occur. There are other reasons to track non-capitalizable assets too. It can protect the public safety or limit liability exposure, in the case of firearms. In addition, you might need to safeguard sensitive or confidential information that might be associated with assets such as tablets or laptops. Lastly, should a loss occur, it can also help to prove ownership and provide records for insurance purposes or for completion of policy reports.

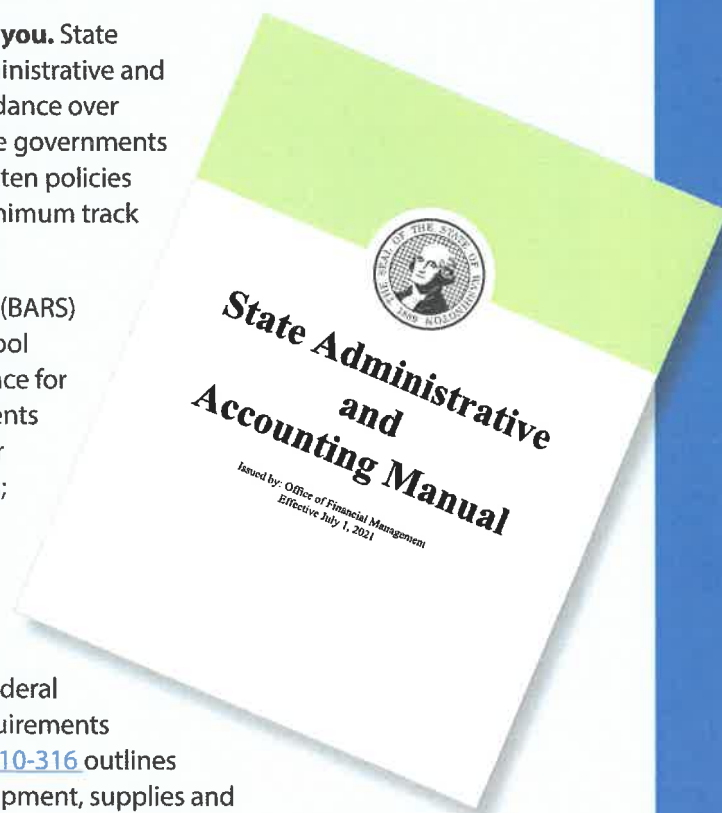
Keep in mind, if you spend federal funds on capital assets, there are federal requirements over tracking and inventorying assets. You should refer to the Uniform Guidance for information about these requirements. However, having a tracking and inventory process can help you comply with those requirements.



- 1) Be familiar with the requirements applicable to you.** State agencies in Washington must follow the State Administrative and Accounting Manual (SAAM), which establishes guidance over small and attractive assets in section 30.40.20. State governments should perform a risk assessment and develop written policies for managing small and attractive assets or at a minimum track specific assets as required by the manual.

The Budgeting, Accounting and Reporting System (BARS) Manual and the Accounting Manual for Public School Districts in the State of Washington provide guidance for local governments in Washington. Local Governments are expected to have internal controls in place over these assets to safeguard them from misuse or loss; however the extent of controls may vary by asset type.

In addition, grantors might impose requirements when assets are purchased with grant funding. For example, if a government purchased assets with federal funds, certain tracking, inventory and disposal requirements apply. The Code of Federal Regulations (CFR) [200.310-316](#) outlines specific requirements related to real property, equipment, supplies and intangible property purchased with federal funds.

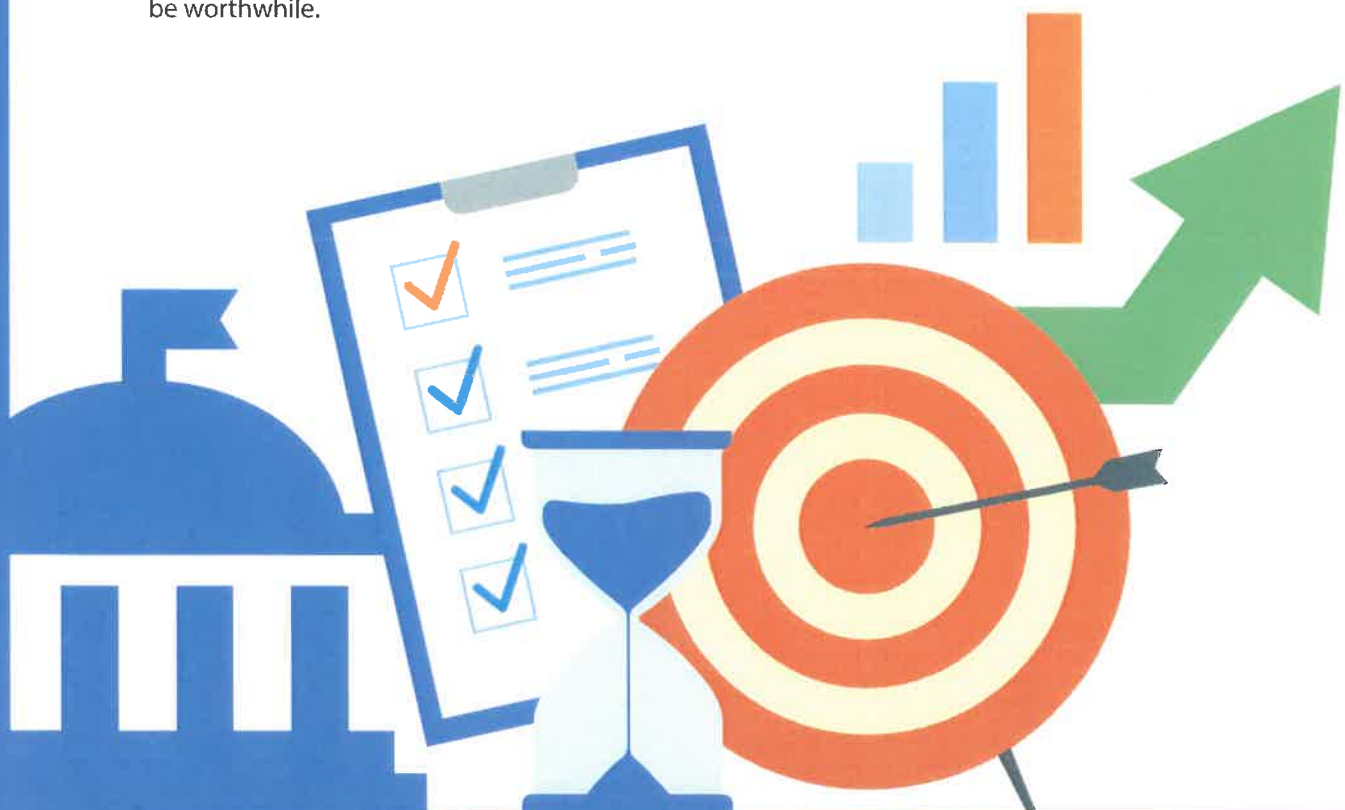




**2) Consider excluding small dollar items.** Governments have flexibility in what they choose to track and inventory, depending upon their risk assessment and how they structure their policy. A government may achieve this flexibility and limit tracking small-dollar items by employing one or more of the following approaches:

- **Threshold.** Governments may elect to establish a threshold to limit tracking smaller dollar items. State agencies in Washington must use a \$300 threshold for laptop and notebook computers and a \$1,000 threshold for other assets such as desktop computers, television sets and cameras (for a complete list, refer to the SAAM). All weapons, firearms, signal guns and their related accessories must be accounted for regardless of the dollar amount. Local governments are not required to follow these requirements, but should consider them.
- **Specific exclusions.** A government may choose to include or exclude certain types of assets based on the results of a risk assessment. Excluding asset types that typically have low monetary value can achieve the same purpose as establishing a threshold. For example, a government might choose to track computers but not peripheral devices, such as monitors, keyboards and scanners.

Governments might find excluding certain asset types is more effective than establishing a threshold and results in clearer guidance. Regardless of the method employed, care should be taken to ensure the government is not spending resources tracking and monitoring items that might not be worthwhile.





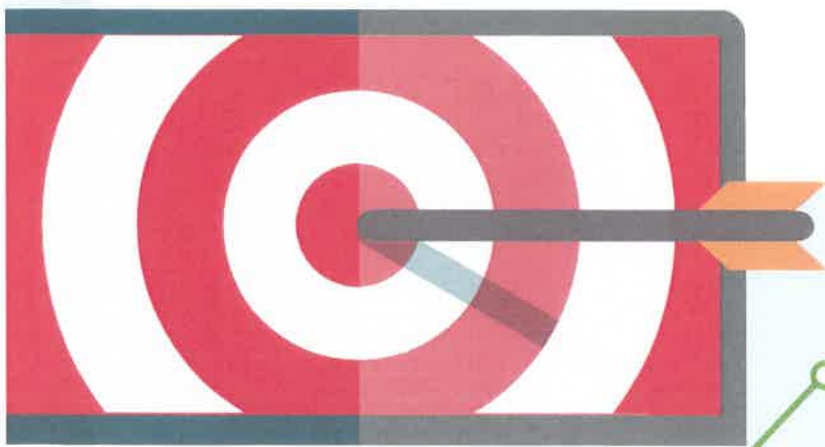
**3) Perform a risk assessment.** A risk assessment helps to identify those assets that are most vulnerable to loss. It should be conducted before developing a policy and periodically as changes occur to update the policy. According to the Office of Financial Management's "[Small and Attractive Capital Asset Risk Assessment Guidelines](#)," an assessment should consider:

- Public perception about what the government should be tracking
- Operational risks with data security, such as on mobile devices
- Tracking or monitoring that may already be done for operational purposes
- Pre-existing controls (such as an asset being stored in a secured location)
- Recent problems with missing or unusable equipment
- New asset types being purchased
- Degree of decentralization and how this affects risk
- Ease to sell or convert to personal use
- Perceived risk associated with the asset
- Replacement cost compared with the cost to track it



The risk assessment's purpose is to consider which assets are most susceptible to theft, loss or misuse and then decide the extent of internal controls that should be put in place to safeguard the assets. These decisions can be affected by the risk tolerance of the government's officials and available resources. For example, a government might decide laptops should be inventoried quarterly because of their mobility and data security concerns, but that stationary computers that are observed by management daily could be inventoried semi-annually.

Local governments should document the risk assessment and periodically revisit it when circumstances change. The assessment results should be helpful in developing a government's policy.

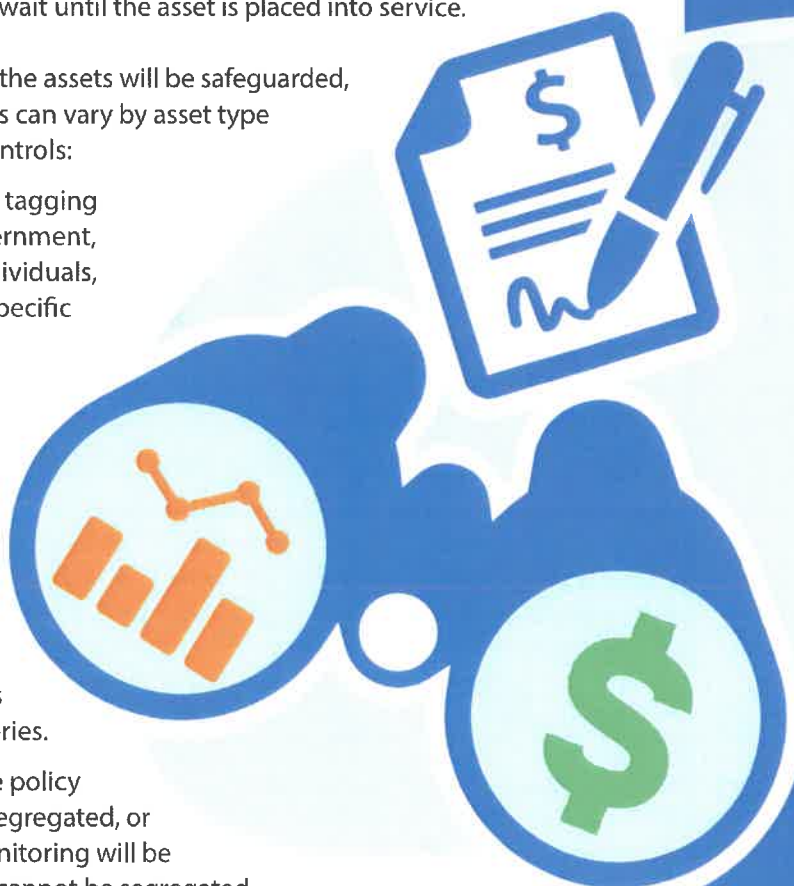


**4) Develop a robust small and attractive asset policy.** A policy should identify the asset types to be covered as well as those to be excluded. If the government desires a minimum threshold to avoid tracking smaller dollar assets, policy should address the amount and whether it applies to all asset types. It is a best practice to establish expectations entity-wide in a policy rather than leave it to each individual department to establish them. The policy could include general information such as how the asset should be treated (e.g., handled with care) and maintained, and if personal use is permitted (if not covered by a different policy). The policy should also include:

- Expectations about asset tracking. The policy should address who is responsible for tracking the various asset types. For example, it's important to address situations where there could be confusion, such as whether the IT department or the individual department (where the equipment is located) is responsible for tracking computer-related assets. The policy should also address how often the small and attractive asset list should be updated. A best practice is to update it promptly upon receipt of the asset. However, some governments wait until the asset is placed into service.

The policy should also address how the assets will be safeguarded, tracked and monitored. These efforts can vary by asset type and may include various levels of controls:

- > Basic controls. Examples include tagging assets as identifiable to the government, assigning custody to specific individuals, or restricting access except for specific authorized personnel.
  - > Limited controls. These include check-out systems or reserve inventories (where only items not in use are tracked).
  - > Comprehensive controls. This is a tracking system ranging from a handwritten record to a spreadsheet, database or software module, as well as periodic physical inventories.
- Segregating duties or oversight. The policy should address how duties will be segregated, or alternatively how oversight and monitoring will be conducted to compensate if duties cannot be segregated. There are several instances when segregation of duties can be an issue:
    - > The person conducting the inventory also has responsibility for the assets (this would be akin to checking yourself).



- > The person tracking assets (e.g., maintaining the list) also has access to the assets during the ordering/receiving process, daily use or surplus process. The risk is that the person who has access to the master list might make unauthorized changes to it to conceal theft or loss.
- > The asset custodian has the authority to purchase replacement assets.
- Inventory-process requirements. The policy should include expectations about the frequency of inventories, who will conduct them and how they will be documented. In addition, variances or missing items are likely to occur at some point, and the process should address how these discrepancies will be resolved. Governments should be aware that longer time between inventories can make it more difficult to follow up on discrepancies. The policy should include a process for reporting stolen or damaged items, as well as who will be responsible for reporting losses to the State Auditor's Office in accordance with state law (RCW 43.09.185). Additional information about what and how to report is located on our website at <https://sao.wa.gov/report-a-concern/how-to-report-a-concern/fraud-program/>.
- Disposal procedures. The policy should consider various risks relating to the disposal process. Assets could be misappropriated (or the sales proceeds diverted or used for unallowable purposes) at the point assets are no longer needed for operational purposes and ready to be surplus. In addition, there can be conflicts of interest where the employees responsible for managing asset sales are also interested in acquiring them. Further, some assets might require special handling or consideration during disposal, such as equipment with sensitive information or firearms that have certain requirements if they are sold to third parties. Governments should also be aware of any specific requirements for surplus procedures for their municipality type. Disposal procedures may also be drafted and referred to as a separate policy.



## 5) Create and maintain a detailed inventory list or other tracking mechanism.

Assets should be visually identifiable as belonging to the government, as well as tagged or marked with an asset number that traces back to an inventory list. Inventory lists should have enough information to uniquely identify the assets, such as detailed descriptions with serial numbers. An asset's location and custodian are important to include on the inventory list to provide accountability and so that the items can be easily located at any time by the government or during an audit. Inventory lists should also comply with federal requirements, if applicable. Federal requirements call for property records to include specific information ([2 CFR §200.313](#)).

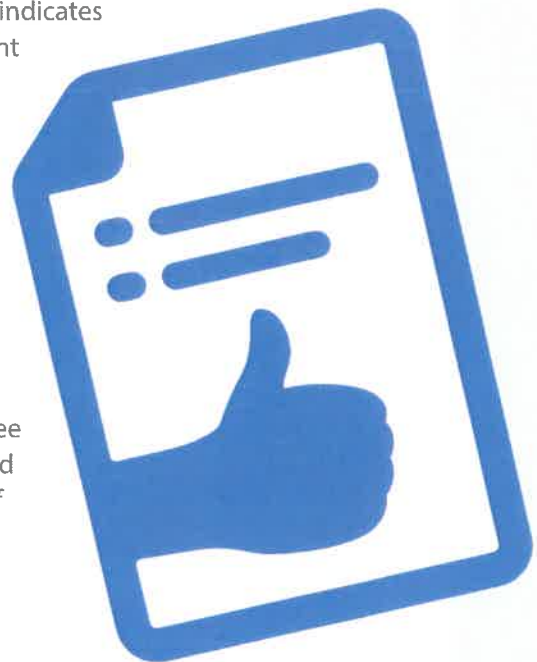
The list should be kept current and periodically monitored to ensure it completely accounts for all assets expected by policy. Ideally, a list should be updated as purchases, assignments or disposals occur. Governments are discouraged from allowing lists to become out of date.





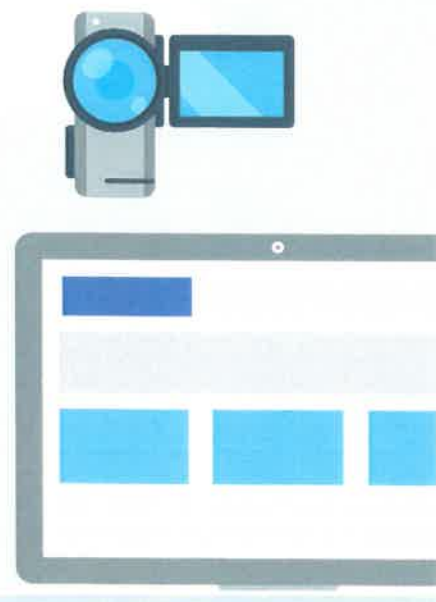
- 6) Be thoughtful about who maintains the inventory list.** The Government Finance Officers Association's (GFOA) [best practice guidance](#) indicates tracking should occur at the departmental level with oversight from the central accounting function or other designated finance function. It's best to avoid duplicating tracking efforts if possible. However, if multiple lists are in use for the same asset type, such as one for finance and another for operational purposes, then they should be reconciled to each other periodically.

The inventory list should be maintained by staff who are independent of the assets they are tracking, meaning they do not have custody of the assets at any point in the asset's life cycle. Governments should avoid the risk that an employee could take an asset and delete the corresponding asset record from the inventory list without detection. If this separation of duties is not feasible, then compensating controls need to be established. These controls likely would involve periodic supervisory reviews to spot check that the inventory list is being maintained and is complete.



- 7) Establish an inventory frequency by asset type.** The frequency of an inventory may vary by asset type. State agencies must perform inventories at least every other fiscal year but otherwise have flexibility in establishing a schedule. Local governments should use their risk assessment results to determine the nature and frequency of the inventory process, keeping in mind the resources available and other mitigating factors. For example, an asset that is used daily by a specific employee to perform job duties that are subject to daily supervision might not need the same level of oversight as assets that are available and used by many employees on a semi-infrequent basis. In the first instance, it's possible the inventory could be done when the assets are assigned or reassigned.

Local governments should be mindful of the applicability of federal requirements for inventories. Current requirements ([2 CFR §200.313](#)) for equipment call for a physical inventory at least once every two years.

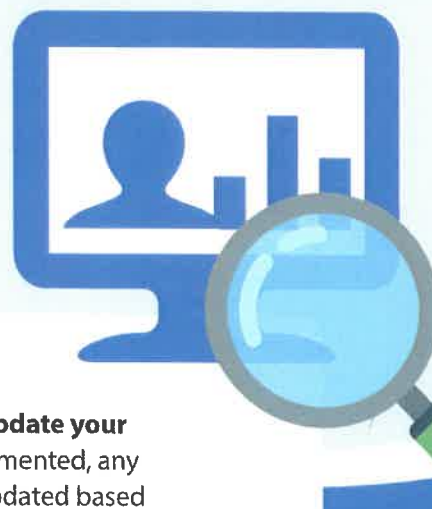


- 8) **Be thoughtful about who performs the inventory.** Inventories are most effective when conducted by someone other than the person responsible for the asset; otherwise, oversight controls should be put in place. An example of an oversight control might be periodic spot checks to confirm the asset's existence.

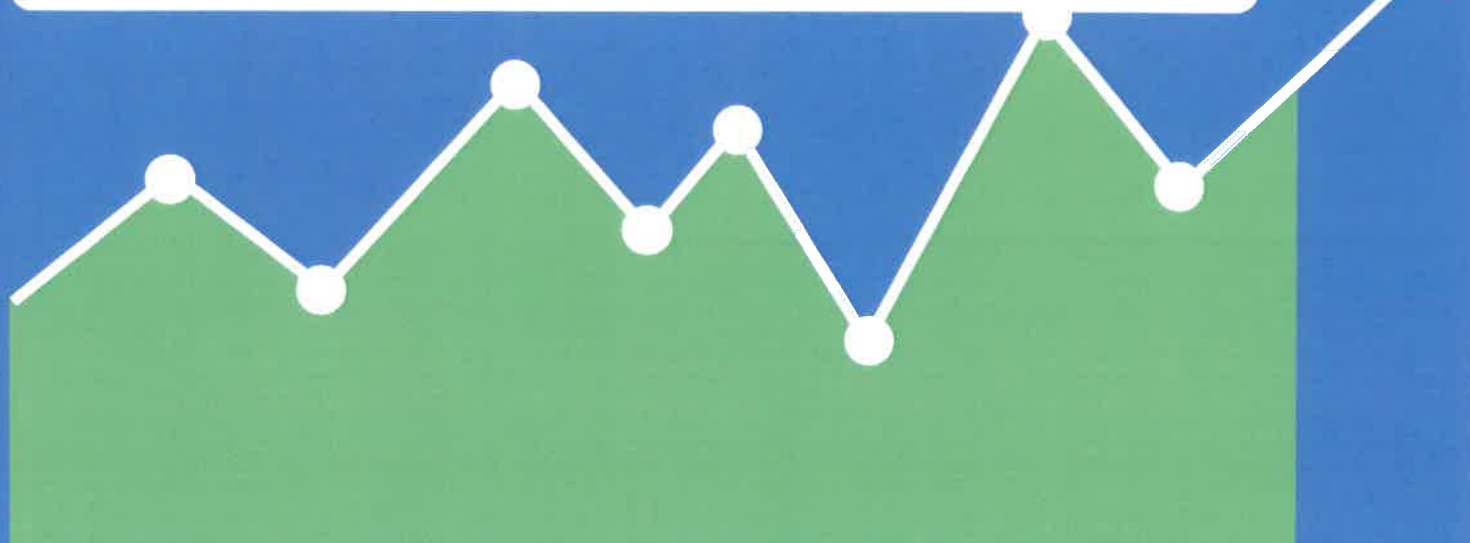


- 9) **Articulate the objectives for your inventory.** Make sure your staff know what they are checking for, when performing an inventory. In addition to identifying missing assets, inventory procedures may include objectives such as determining:

- Whether all existing assets are included on the inventory list
- Property is marked with the government's name, tagged, or properly secured
- Location shown on the list corresponds to the actual location
- Description shown on the list corresponds to the asset's actual appearance and features
- Damage or misuse



- 10) **Promptly investigate variances as a result of an inventory and update your records.** Governments should ensure the inventory results are documented, any variances or issues are resolved promptly, and the inventory list is updated based on the inventory results.



## Additional resources:

Government Finance Officers Association's best practices guidance – "[Control over Items that Are Not Capitalized](#)"

State of Washington Office of Financial Management, "[Small and Attractive Capital Asset Risk Assessment Guidelines](#)"

Budgeting, Accounting, and Reporting System (BARS) Manual – "[Controls over Capital Assets GAAP entities](#)" or "[Capital Asset Management \(cash entities\)](#)"

State Administrative and Accounting Manual (SAAM) – [Section 30.40.20](#)

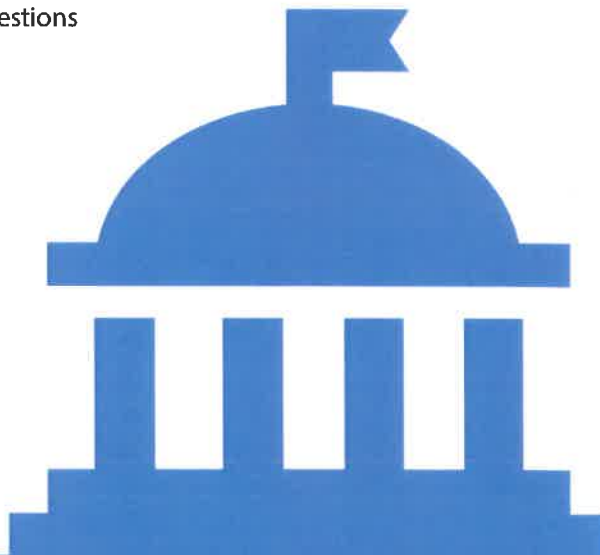
The Code of Federal Regulations 2CFR 200 – [Section 200.310-316](#)

## For assistance

This resource has been developed by the Center for Government Innovation at the Office of the Washington State Auditor. Please send any questions, comments or suggestions to [Center@sao.wa.gov](mailto:Center@sao.wa.gov).

### Disclaimer

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