



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Granger

For the period January 1, 2023 through December 31, 2024

Published May 7, 2026

Report No. 1039386



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

May 7, 2026

Mayor and City Council
City of Granger
Granger, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

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

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

Additionally, we reported a material noncompliance with budget requirements as part of a finding in our financial statement audit, which we issued in a separate report.

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 Granger from January 1, 2023 through December 31, 2024.

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, 2024 and 2023, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – gross wages, overtime, leave balances and accruals, electronic funds transfers, leave cash outs and final pay to departing employees
- Financial condition – reviewing for indications of financial distress
- Accounts payable – general disbursements and credit cards

- Cash receipting – timeliness and completeness of deposits, voids and adjustments at City Hall
- Cost allocation plan – equitable distribution of indirect costs
- Use of restricted funds – transfers
- Compliance with lease agreement contracts
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Conflict of interest – public disclosure commission submission

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Granger January 1, 2023 through December 31, 2024

2024-001 The City did not monitor its financial activity or comply with state law, placing it at risk of not meeting its financial obligations or providing services at current levels.

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 its financial statements, notes and required schedules are prepared, reliable, and presented fairly in accordance with the *Budgeting, Accounting and Reporting System* (BARS) manual.

The City of Granger serves about 4,095 residents in Yakima County. The City provides a full range of services including police, municipal court, public works, building inspection and permitting and a volunteer fire department. An elected, five-member Council and an independently elected Mayor govern the City. An appointed Clerk-Treasurer is responsible for overseeing city operations and recording financial transactions. For fiscal years 2024 and 2023, the City had total operating expenditures of \$4,837,374 and \$4,483,987, respectively.

Description of Condition

The City's financial condition has continued to decline since 2021, and the City did not establish adequate internal controls over financial operations to ensure it can sustain operations and meet obligations.

Cash balance sufficiency measures overall fiscal sustainability for the current expense fund, which the City can use to support other fund operations as needed. It is important to maintain a cash and investments balance sufficient to operate for at least 60 days. The City's cash balance sufficiency for the current expense fund is shown in the following table:

For year ended December 31	2021	2022	2023	2024	2025*
Ending cash & investments – current expense	\$393,457	\$256,082	(\$21,023)	\$144,596	\$284,770
Operating expenditures	\$1,605,327	\$1,920,774	\$2,022,293	\$2,018,828	\$2,081,267
Cash balance sufficiency (in days)	87.70	47.8	(3.8)	26.1	49.9

**Based on City's unaudited trial balance*

In addition, the City reported negative cash and investment balances for four funds totaling \$210,366 in 2023, three funds totaling \$447,834 in 2024 and four funds totaling \$668,459 in 2025, detailed below:

Funds with negative ending cash and investments	2023	2024	2025*
Current expense fund	(\$21,023)	-	-
Streets fund	(\$143,858)	(\$163,811)	(\$242,074)
Sewer fund	(\$2,070)	(\$148,284)	(\$83,170)
Irrigation fund	(\$43,415)	(\$135,739)	(\$218,761)
Garbage fund	-	-	(\$124,454)

**Based on City's unaudited trial balance*

When expenditures in a fund exceed the amount of available resources, the City uses resources from other funds to continue operations without formally making an interfund transfer or establishing an interfund loan. The City can only make transfers from unrestricted sources such as the current expense fund. The Council must approve interfund loans by resolution or ordinance that includes a payment plan and set a reasonable interest rate the City will pay to the lending fund. If the City does not repay interfund loans in a timely manner, it would represent an unallowable diversion of funds. The City effectively borrowed from restricted revenues to sustain operations in 2023, 2024 and 2025.

Cause of Condition

Since the prior audit, the City did not develop a comprehensive financial plan to improve its financial condition. The City was unable to dedicate sufficient time and resources for developing adequate controls and oversight over financial activity. The City has experienced turnover in its Clerk-Treasurer position and the City also underwent a general ledger software system conversion in 2023. Further, the City

has not monitored financial activities to ensure funds have the available resources and budget to cover expenses before payment.

Effect of Condition

The City is at an increased risk of being unable to meet its financial obligations and maintain its operations at the present level. Further, the City had expenditures that exceeded its funds' available resources, which is noncompliance with state law.

Recommendation

We recommend the City establish adequate internal controls over financial operations and closely monitor financial operations to ensure it can meet its financial obligations. Specifically, the City should implement a comprehensive financial plan to improve its financial condition.

We also recommend the City obligate expenditures only when funds have the available resources to pay for transactions and comply with state law and the *Budgeting, Accounting and Reporting System (BARS)* manual when borrowing from restricted funds by implementing allowable interfund loans.

City's Response

The City of Granger acknowledges the findings regarding our financial operations and internal controls. We recognize that maintaining a healthy financial condition requires rigorous monitoring and adherence to the Budgeting, Accounting, and Reporting System (BARS) manual. To address the Auditor's recommendations, the City has initiated the following Comprehensive Financial Improvement Plan:

1. Comprehensive Financial Improvement Plan

*The City is developing a formal, written **Three-Year Financial Recovery & Stability Plan**. This plan will serve as the roadmap for the City's fiscal health and includes:*

Revenue Diversification & Fee Analysis: *A complete review of municipal fees (Transportation Building District (TBD), Building and Service Permits, Utility Rates and Connections) to ensure they cover the true cost of services.*

Expenditure Realignment: *Implementing the "Budget Cut Act" measures, including non-essential spending freezes and the evaluation of vacant positions to prioritize core public safety and infrastructure needs.*

Cash Flow Forecasting: *The Finance Department will produce a quarterly 12-month rolling cash flow forecast to ensure the City anticipates and prepares for lean months without relying on restricted funds.*

2. Internal Controls Over Obligations

To ensure expenditures are obligated only when resources are available:

Prior Approval Expenditure Request: Hard-Stops: Our expenditure process now requires a verified budget check and signature approval by the 1) Department Head, 2) City Clerk/Treasurer, and 3) Mayor before any purchase is issued. If a fund does not have the available unencumbered balance, the request is denied and the process will be rerouted to the requestor preventing the obligation until a budget amendment is approved by the City Council.

Warrant Register Oversight: Per RCW 42.24.180, all payroll and accounts payable warrants are now reviewed and approved by the City Council prior to payment (or ratified at the earliest possible meeting) to ensure transparent oversight of every taxpayer dollar spent.

3. Interfund Loan Compliance (BARS & State Law)

To address previous concerns regarding the use of restricted funds, the City has established strict protocols for **Interfund Loans**:

Formal Council Authorization: No funds will be moved between accounts without a formal **Resolution or Ordinance** passed by the City Council. This document will clearly state the lending fund, the borrowing fund, the specific public purpose, and a definitive repayment schedule.

Interest and Repayment: In accordance with **BARS 3.9.1**, all interfund loans will include a reasonable interest rate and a repayment plan not to exceed three years. This prevents the "permanent diversion" of restricted funds (such as Utility funds) into the General Fund.

Negative Balance Monitoring: Any fund with a negative cash balance for more than 60 days will be treated as an unauthorized loan and immediately brought before the Council for a formal loan resolution or a budget transfer.

Corrective Action Timeline

Action Item	Responsible Party	Expected Completion
Draft Financial Recovery Plan	Mayor / City Clerk-Treasurer	Quarter 3, 2026
Implement Expenditure Budget Check	Finance Director	Complete
Interfund Loan Training	Finance Staff	Quarter 2, 2026
Review of Restricted Fund Balances	Mayor / City Clerk-Treasurer	Monthly

Auditor's Remarks

We appreciate the City's commitment to resolving the issues identified above. We will follow up on the status of the finding during the next regularly scheduled audit.

Applicable Laws and Regulations

RCW 35.33.121 – Funds – Limitations on expenditures – Transfers

The *Budgeting, Accounting and Reporting System* (BARS) Manual 3.9.1 – Interfund Loans

RCW 43.09.210 – Local government accounting – Separate accounts for each fund or activity – Exemption for agency surplus personal property

The *Budgeting Accounting and Reporting System* (BARS) manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30

The *Budgeting, Accounting and Reporting System* (BARS) Manual 3.9.1 – Interfund Loans



CITY OF GRANGER

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Granger
 January 1, 2023 through December 31, 2024**

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

Audit Period: January 1, 2020 through December 31, 2022	Report Ref. No.: 1034769	Finding Ref. No.: 2022-001
Finding Caption: The City lacks adequate oversight and processes to ensure it properly pays employees and follows state laws.		
Background: The City did not have adequate procedures in place for payroll activity to safeguard public funds. Specifically, the City did not: <ul style="list-style-type: none"> • Bring payroll warrants to the City Council for review prior to payment, as required by state law • Notify the City Council of late fees and penalties assessed by the Internal Revenue Service (IRS) • Review the two former Clerk-Treasurers' timesheets and leave slips • Establish a secondary review of timecards and leave slips to ensure staff properly recorded all leave taken before processing payroll • Verify that staff only carried over the amount of leave allowed by City policy 		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <ol style="list-style-type: none"> 1. <i>The City has adopted Resolution 2024-010 allowing the City to certify payroll prior to and within a ten-day period of the second and fourth Tuesday of every council meeting.</i> 2. <i>The City has now presented any and all payments to vendors that pertain to payroll/quarterlies.</i> 3. <i>City of Granger has a system (UKG) in place where any leave and all timesheets are presented to Mayor for approval.</i> 		

4. *City of Granger has put it in place where department heads review any leave and timesheets of their employees in their department & as well as the Mayor.*
5. *City of Granger has a policy in place as well stated in CBAs where employees may carry only what is allowed. City is now currently fully staffed and moving forward no carry overs should be reported.*

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 includes a finding for a material weakness in internal controls over financial reporting and material noncompliance regarding budget compliance. That report is available on our website, <https://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Granger operates with a mayor-council form of government consisting of five elected Council Members and an elected Mayor. The City serves approximately 4,095 citizens and operates on a \$5.8 million budget.

The City's services include a City Hall, Municipal Court, Police Department, Public Works Department, Building Inspection and Permitting and a Volunteer Fire Department. The City has approximately 22 full-time employees, not including volunteer firefighters.

Contact information related to this report

Contact:	Fantasia Reyes, Clerk-Treasurer
Telephone:	(509) 854-1725
Website:	http://www.grangerwashington.org/

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Granger at <https://portal.sao.wa.gov//ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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