



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

February 28, 2023

Board of Trustees
Timberland Regional Library
Tumwater, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of the Timberland Regional Library from January 1, 2019 through December 31, 2021. We believe our recommendations will assist you in improving the District'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 District officials and personnel. If you have any further questions, please contact me at (564)999-0882.

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 cursive script that reads "Lisa Carrell".

Lisa Carrell, CPA, Program Manager

Attachment

Management Letter
Timberland Regional Library
January 1, 2019 through December 31, 2021

Public Works Procurement and Prevailing Wage Compliance

According to its Public Works and Purchasing Policy, the District may use a small works roster process to solicit bids. When using the small works roster method, state law (RCW 39.04.155) requires the District to establish procedures for securing quotations from contractors, assure a competitive bid is established, and award contracts to the lowest responsible bidder. Invitations for quotes shall include the scope of the work to be performed and materials and equipment to be furnished. The District must obtain quotations from at least five contractors, but for purchases under \$50,000, only a minimum of three contractors is required. The District must also maintain a list of the contractors contacted and the contracts awarded for the previous 24 months. For public works projects, the District must include the prevailing wage language requirements in its contracts and ensure that contractors are filing Statements of Intent to Pay Prevailing Wages and Affidavits of Wages Paid with the Department of Labor & Industries (L&I).

During our audit, we found the District did not:

- Have procedures for securing quotations and awarding the contract using the small works roster method
- Provide evidence that invitations for quotations included the required elements or that it obtained the required number of quotations. As a result, we could not verify the District awarded the contract to the lowest responsible bidder.
- Maintain a list of the contractors contacted and the contracts awarded for the previous 24 months
- Include the required prevailing wage language requirements in the contract, nor did it verify the contractor filed Statements of Intent to Pay Prevailing Wages and Affidavits of Wages Paid with L&I

We recommend the District:

- Establish procedures for soliciting quotations using the small works roster. This includes maintaining documentation of the solicitations and bids received from an adequate number of contractors in order to demonstrate the District selected the lowest responsible bidder and awarded the contract in accordance with state law.
- Maintain a complete list of projects procured using the small works roster process and ensure it contains all required elements
- Ensure contracts contain the required prevailing wage language and establish procedures to ensure the contractor files L&I-approved Statements of Intent to Pay Prevailing Wages and L&I-approved Affidavits of Wages Paid

Improvements to City-Owned Property

District policy allows for financial assistance with maintenance and/or health and safety projects at city-owned libraries. These projects are not to exceed \$10,000 and require a formal, written request from the city. Our audit identified two projects—a flooring project for \$41,672 and a restroom renovation project for \$21,672—which were completed in non-District, city-owned buildings during the audit period. These projects exceeded the \$10,000 limitation, but the District fully funded them and without a formal, documented request from the city.

We recommend the District follow its building fund policy when providing financial assistance with maintenance and/or health and safety projects on city-owned library buildings.

Loss of Public Funds – Electronic Fund Transfer

Since 2016, Washington’s governments have reported more than \$28 million of lost public funds as a result of cyberfraud, sometimes referred to as phishing, spearfishing, or business email compromise schemes. In these schemes, an external threat actor contacts the government, appearing to be a known source—an employee, upper-level manager, vendor or other business associate. The government staff are convinced to redirect valid payments to the external threat actor or to purchase gift cards and provide them with the card numbers.

It is imperative that governments implement robust internal controls over all disbursements. This includes establishing a verification processes for all requests to change employee or vendor contact and payment information, as well as any requests to purchase gift cards, especially when they come through email, phone, fax or another electronic method.

The District spent about \$22.4 million, \$23.6 million and \$24.3 million in general disbursements in fiscal years 2019, 2020 and 2021, respectively. The District is responsible for establishing effective controls over its electronic payments, including the payment information on file for vendors and employees, to protect electronic payments from internal and external threats.

Our audit found the District did not have adequate internal controls over electronic payments to protect public funds. In 2020, the District made a vendor payment totaling \$120,968 to a fraudulent bank account. The District did not take sufficient corrective action to improve its internal controls after the event, and it experienced a second loss in 2022 totaling \$2,675, which was related to payroll.

We examined the District’s controls over electronic payroll payments and found it did not:

- Have a policy or practice requiring sufficient verification for all bank change requests to make sure they were made by the actual vendor or employee
- Maintain documentation to demonstrate that staff performed appropriate verification procedures
- Adopt policies over electronic funds transfers (EFTs) that contain the required elements prescribed in the *Budgeting, Accounting and Reporting System* (BARS) Manual (3.8.11.30)

We recommend the District:

- Develop written policies and procedures over electronic payments to require adequate verification of bank account changes with the vendor or employee, and to include the required elements prescribed in the BARS Manual (3.8.11.30)
- Strengthen its controls to ensure verification procedures are required and followed to protect EFT transactions from internal and external threats
- Maintain documentation to demonstrate staff performed appropriate verification procedures on all requests
- Provide adequate communication and training to staff on the verification requirements