

Schedule of Audit Findings and Responses

City of Bonney Lake Pierce County January 1, 2012 through December 31, 2012

1. The City's internal controls are inadequate to ensure timely and accurate accounting and financial reporting.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

In our 2007, 2008 and 2010 audits, we identified and communicated deficiencies in controls that adversely affected the City's ability to produce reliable financial statements.

Description of Condition

Our current audit identified the following weaknesses in internal controls that when taken together, represent a material weakness:

- The key employee with responsibility for preparing the 2011 cash basis financial statements left the City in January 2013. The City did not hire a replacement until May 2013.
- The City hired a contractor to prepare the 2012 financial statements in accordance with Generally Accepted Accounting Principles (GAAP) which require special expertise and more time to prepare than other types of financial statements. City personnel did not adequately review the financial statements prepared by the contractor for accuracy and as a result did not detect multiple errors in the financial reporting.
- City staff lacked the technical knowledge and experience to ensure the GAAP financial statements, notes, and management discussion and analysis were prepared correctly.

Cause of Condition

City management did not dedicate the necessary resources, such as staff time and training, to ensure accurate and timely financial reporting.

Effect of Condition

The City's process for financial statement preparation did not ensure its financial reporting was complete, accurate and in accordance with current GAAP.

The City's financial statements, notes, and management discussion and analysis contained numerous errors.

During our audit we identified the following errors:

- The City did not implement Governmental Accounting Standards Board Standard 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*.
- The City did not implement Governmental Accounting Standards Board Standard 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Improper reporting of \$4,186,750 of capital outlays as expenses in the proprietary funds.
- Improper reporting of beginning fund balances in the Fund Statements and the Government-Wide Statement of Activities that did not reconcile to support.
- Improper reporting of \$710,156 of grant revenues as other financing sources.
- Improper reporting of \$443,616 of loan proceeds as proprietary fund revenues.
- Improper reporting in the Government-Wide Statement of Net Position where the internal balance did not include an interfund loan of \$800,582 payable from a governmental fund to a proprietary fund.
- Understatement of the cash balance reported in the General Fund of \$115,153.
- Improper reporting of amounts in the Notes to the Financial Statement including cash and cash equivalents, capital assets, and long term debt.

Other classification and presentation errors on the City's financial statements, notes, and other required supplementary information were noted and communicated to management. All of the errors were eventually corrected.

The delays due to the inaccurate financial statements delayed the audit process and increased the audit costs resulting in the City not meeting the Single Audit Act deadline of September 30, 2013.

Recommendation

We recommend the City dedicate adequate resources and training to staff to ensure financial information and reporting are accurate and complete. We also recommend the City establish and follow effective internal controls to ensure:

- The City's financial reporting and preparation process is complete, accurate, and in accordance with the GAAP.
- Someone knowledgeable of the GAAP Budgeting, Accounting, and Reporting System (BARS) Manual and independent of financial statement preparation

processes performs a thorough review of the financial statements and supporting schedules to ensure they are accurate, complete, and presented in accordance with requirements.

City's Response

The City of Bonney Lake (City) has reviewed and acknowledges the State Auditor's (SAO) finding regarding the City's internal controls pertaining to timely and accurate accounting and financial reporting. The City is committed to the proper accounting and reporting of the City's financial statements and the accompanying schedules. In an effort to ensure accurate and timely reporting in future periods the City has implemented the follow:

- The City has made personnel changes to key finance positions directly responsible for the preparation of the City's financial reporting. The City has also redistributed strategic financial preparation duties among key finance positions in order to facilitate a balanced approach and review process.*
- The City has provided comprehensive training in the area of financial accounting and reporting through the collaborative efforts of the Washington Finance Officers Association (WFOA) and the State Auditor's Office (SAO) for staff involved in the financial preparation and reporting process.*
- The City has committed to training for key finance staff titled "Advanced Financial Reporting" that is provided through the Government Finance Officers Association (GFOA).*
- The City has also invested in academic resources to ensure the proper presentation, format and implementation of current GASB pronouncements.*
- The City will utilize outside expertise with a returning consultant who has gained familiarity with the City's general ledger accounting system.*
- The City has implemented a team approach to enhance the accuracy and the timely delivery of the City's financial reports.*
- The City has developed a strategic approach for a formal review of financial statements and schedules. Key staff accountants preparing financial statements will review each other's work focusing on specific attributes. After this first level review, the work will then be submitted to the consultant for a second review that will incorporate yet additional review attributes. At the conclusion of the review by the consultant, the product will then be submitted to the Chief Financial Officer for the final review prior to the submittal of the City's financial statements.*

In addition to the above items, the City has recently invested significant time and resources in an effort to overcome an ongoing challenge in the preparation of accurate, timely GAAP financial reports. We firmly believe that implementation of the above items will provide a solid foundation moving forward to ensure that the conditions communicated by SAO have been addressed and resolved. We thank the State Auditor's Office for their efforts.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

a. Significant deficiency: 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.

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.