

Schedule of Federal Audit Findings and Questioned Costs

**Richland Public Facilities District
Benton County
January 1, 2013 through December 31, 2013**

1. The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	15.664 Fish and Wildlife Coordination and Assistance Program
Federal Grantor Name:	U.S. Department of Interior
Federal Award/Contract Number:	F13AC00082
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

The District spent \$696,212 in federal grant funds during fiscal year 2013 on designing, fabricating and installing exhibits for The Reach Museum.

Suspension and Debarment

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The District is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The District can obtain a written certification from the vendor, insert a clause into the contract where the vendor states that is not suspended or debarred, or review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration (GSA). This requirement must be met prior to entering into a contract with the vendor.

Description of Condition

We reviewed the District's internal controls and compliance with regulations over its Fish and Wildlife Coordination and Assistance Program. The District did not have a process in place to ensure compliance with the suspension and debarment and reporting requirements.

Cause of Condition

The District received its first federal funding in fiscal year 2013. The District reviewed the Grant Agreement with the U.S. Fish and Wildlife to ensure compliance with applicable compliance requirements, however, the compliance requirements were only referenced and weren't fully disclosed. The District did not take additional steps to confirm what requirements were applicable to its federal program. This resulted in compliance requirements being missed or misunderstood by District staff. We consider this control weakness to be a material weakness.

Effect of Condition and Questioned Costs

The District paid three vendors through the grant funds with a total amount of \$690,095 or 99% of total grant expenses. The first vendor was paid \$393,538 for designing the exhibits to be presented in The Reach Museum. The other two vendors were paid \$135,900 and \$160,657 for the construction and creation of audio/visual setups and exhibit fabrication, respectively. For the first vendor, the District did not verify whether the vendors were suspended or debarred. For the other two vendors, the District only referenced the original grant agreement in their vendor contracts. This does not suffice the vendors' attestation and certification that they are not suspended nor debarred. This material weakness in internal controls increases the risk that the District will enter into contracts with vendors who are suspended or debarred from receiving federal funds. Payments on the contracts would be unallowable and cause the District to repay the funding to the grantor.

We were able to verify that the vendors had not been suspended or debarred and, therefore, we are not questioning costs for the payments.

Recommendation

We recommend the District establish internal controls to verify suspension and debarment status of all vendors paid with federal funds prior to the disbursement of payments to the vendors or prior to entering into contracts.

District's Response

The District prepared all vendor contracts to be in compliance with the Federal Grant CFDA No.15.664 Fish and Wildlife Coordination and Assistance Program from United States Department of Interior and all statements and requirements listed therein. The regulation to ensure compliance with the suspension and debarment reporting requirement was not included in the grant contract.

The District thanks the State Auditor's Office for preparing this report in a timely manner and with a minor disruption to our business.

Auditor's Remarks

We appreciate the District's commitment to resolving the issues noted and will follow up during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a 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.

Significant deficiency. 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.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Schedule of Audit Findings and Responses

Richland Public Facilities District Benton County January 1, 2013 through December 31, 2013

2. The District's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.

Background

It is the responsibility of District management to design, implement, and maintain internal controls to ensure financial statements are fairly and provide reasonable assurance regarding the reliability of those statements. Our audit identified a significant deficiency in internal controls over financial reporting that has affected the District's ability to produce reliable financial statements.

Description of Condition

During our audit, we identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- Staff responsible for compiling the financial statements was not knowledgeable of the financial reporting requirements and did not utilize the *Budget Accounting and Reporting System* (BARS) Manual when preparing the financial statements.
- There was no secondary review of the financial statements, notes, and schedules to ensure accurate reporting by the District.

Cause of Condition

During the audit period, the District had a high turnover of accounting staff. In addition, due to the amount of federal funding it received, the District had to prepare more complex financial statement reporting than it typically is required to.

Effect of Condition

During our audit, the District provided us with three revised sets of financial statements for audit. The first two revisions did not include accurate or complete set of statements, notes, and schedules as required by the BARS Manual for cash basis entities. The District's final revision of the financial statements and supplementary information included all required elements.

Inaccurate financial reporting can affect the amount of audit coverage required and delay an audit. Should omissions or other errors be made and not identified in a timely manner, the District could miss its federal reporting deadline and jeopardize future federal funding.

Recommendation

We recommend the District dedicate the necessary time and resources to:

- Use the current accounting and reporting guidance provided in the *Budget, Accounting and Reporting System* (BARS) manual when preparing the financial statements, notes and schedules
- Pursue additional technical guidance when preparing the financial statements, notes, and schedules.
- Provide adequate training for staff for financial accounting and reporting to ensure compliance with reporting requirements.
- Ensure a detailed, technical review is performed of the financial statements by a person knowledgeable of BARS and reporting requirements.

District's Response

The District's response is that, for our first federal and financial audit for the Richland Public Facilities District, we were very pleased to receive an "unmodified opinion" that the financial statements are presented fairly. The first set of financials presented were internally generated financial statements presented to the District's board monthly and were accepted by the SAO in 2012 for financial reporting. Since this was our first federal and financial audit, the SAO informed the District that more in depth financials were required with all statements, schedules and notes as required by BARS. The second set of financials presented were more in line with BARS but, due to the complexity of the BARS guidelines, were still missing a few components. The third and final set of financials, with all attached schedules and notes, were prepared according to BARS for accrual basis entities reporting as cash basis.

The District's Treasurer reviews the financial statements monthly prior to the District's monthly board meeting. The RPFDD board minutes reflect the board's approval of the monthly financials. The financial schedules and information, uploaded to the SAO website, were not reviewed by the District's Treasurer prior to the audit but the financial content used to compile and prepare the cash basis statements were reviewed.

The District thanks the State Auditor's Office for preparing this report in a timely manner and providing guidance in moving forward from this first financial audit.

Auditor's Remarks

We appreciate the District's commitment to resolving the issue noted and will follow up during the next 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.