SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Lower Columbia College
July 1, 2014 through June 30, 2015

2015-001 The College should improve internal controls over its financial statement preparation.

Background

It is the responsibility of the College to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In our previous audit, our Office reported a finding on internal control over financial reporting. The current audit again identified deficiencies in internal controls that could adversely affect the College's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal control that, when taken together, represent a significant deficiency:

- Staff preparing financial statements lacked adequate resources to ensure transactions were appropriately reported under generally accepted accounting principles.
- The review performed on the financial statements and notes was not adequate to ensure they were complete and accurate.

Cause of Condition

The College experienced turnover in the position primarily responsible for preparing financial statements. The new individual lacked experience preparing financial statements for colleges. The College did not provide additional resources to compensate for the transition.

Effect of Condition

The College's financial statements contained significant errors that were not detected by management. We identified the following errors in the original financial statements we received for audit:

- Receivables were overstated and expenses were understated by $983,560 due to challenges recording building and innovation fee remittances.

- The Management Discussion and Analysis (MD&A) did not contain the required two years of comparative information.
- The College did not fully implement the new pension accounting standard that was effective for the audit period. The note disclosures and supplementary information required by the standard were not prepared.
- Net Investment in Capital Assets, a component of Net Position, was understated by $1,080,848 due to errors classifying unspent debt proceeds.
- Negative expenses of $751,263 associated with capitalized fixed assets were presented on the face of the operating statement. These expenses should have reduced maintenance and repair expenses.
- The College disclosed but did not record the loss and related liability for a legal settlement of $338,263 on their statements.
- Cash was overstated by $42,905 because the College was unable to fully reconcile its cash balance to bank statements.

These errors were corrected in the College's final financial statements.

Recommendation

We recommend the College dedicate the necessary time and resources to ensure procedures such as training and oversight are in place to ensure financial statements are accurate, complete and comply with generally accepted accounting principles.

College's Response

Thank you for working with Lower Columbia College (LCC) on our FY2015 Financial Statement Audit. FY2015 is the second year that LCC has prepared Financial Statements and has already implemented some vital changes in ensure internal controls. LCC would like it noted that all of the misclassifications that were found during the audit of the FY2014 Financial Statements were not repeated in the FY2015 Financial Statements. Additionally, all errors found by the State Auditor's office were corrected before the final FY2015 Statements were published.

Auditor's Remarks

We appreciate the College's commitment to resolve this finding and thank the College for its cooperation, assistance and the corrective action taken during the audit. We will review corrective action in our next regularly scheduled audit.

Applicable Laws and Regulations

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 material weaknesses and significant deficiencies 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:
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> 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.
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> 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.

RCW 43.88.160 Fiscal management—Powers and duties of officers and agencies, states in part:

> (4) In addition, the director of financial management, as agent of the governor, shall:
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>> (a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial

> controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

> Section 20.15.30.a *Who is responsible for internal control?*
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> The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.
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> Section 20.15.40.c *Control Activities*
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> Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.
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> Section 20.15.40.e *Monitoring*
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> Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.
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> Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives. An

agency’s internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.