

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2016-001    The District did not have adequate internal controls to ensure accurate financial reporting.**

#### ***Background***

District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in internal controls over financial reporting that resulted in errors in the District's financial statements.

*Government Auditing Standards* requires that the auditor communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

#### ***Description of Condition***

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness over financial reporting:

- The District could not demonstrate that it performed a reconciliation of cash, investments, warrants outstanding, revenues and expenditures to the County Treasurer each month. For the reconciliations that were available for audit, the reconciliations were not adequately performed; for example, some reconciliations did not identify reconciling items. In addition, staff responsible for reconciling and monitoring financial activity were not independent because they had access to cash deposits.
- Journal entries were not adequately reviewed consistently during the audit period. In addition, some journal entries and transactions were not recorded promptly.
- The District did not have an adequate review process over its financial reporting to ensure the financial information appeared accurate, complete and in compliance with the reporting guidance.
- The District did not properly account for its trust fund. Amounts reported in the financial statements did not agree to the general ledger or County Treasurer activity. We were unable to determine the correct amounts to be reported.

### ***Cause of Condition***

The District experienced significant turnover of its Business Manager position; having six during the three-year audit period. The District did not adequately manage records and documentation to support its internal control processes during this time. Due to lack of policies, each Business Manager appears to have handled financial transactions and processes in different ways, some of which were potentially performed but not documented. In addition, oversight procedures were not sufficient to detect the extent of the control deficiencies described above.

### ***Effect of Condition***

The internal control deficiencies placed the District at risk for material misstatements in its annual financial statements. The audit found errors with amounts presented in the fiduciary trust fund as well as some concerns with the note disclosures.

In addition, the District risked presenting inaccurate financial information to the Board and potentially citizens at presentations throughout the year.

### ***Recommendation***

We recommend the District:

- Provide additional training and oversight to staff responsible for accounting and financial reporting.
- Establish a reconciliation process to ensure all District activity is recorded accurately in the general ledger.
- Establish and follow written policies and procedures on the expectations and responsibilities related to the authorization, documentation, timeliness and review of journal entries.
- Establish a review process of the financial statements by a person who understands *Accounting Manual for Public School Districts in the State of Washington* reporting requirements to ensure accurate preparation and reporting of the District's financial statements and notes.

### ***District's Response***

*The District would have it noted that from July of 1997 through June of 2015, fiscal services were provided to the District through a contract with ESD 112. During the audit time frame in question, three (3) of the six (6) "Business Managers" of the District were provided by ESD 112.*

*In July of 2015, due to a lack of available staff at ESD 112 to provide the services the District required, we went “on our own” and hired a CPA with ESD fiscal experience and a background with the State Auditor’s Office. When this Business Manager decided to leave due to family priorities in December of 2015, the District was unable to find a suitable replacement. Our “practice” up to this point had been to entrust our District finances to the “experts” in school finance.*

*While we do not dispute the state of our records as reported by the Auditor, we would argue that this is the result of a “perfect storm” of circumstances rather than a lack of over-sight or policies on the part of the District.*

*Upon determining there was not an acceptable business manager to be hired nor could we rely on ESD 112 to provide services/help/training/etc. the superintendent at the time declared a “state of emergency” in the district. He appointed himself Interim CFO, reassigned his assistant to a “Fiscal Specialist” role and immediately sent her to School Accounting classes through WASBO. He solicited help from our former long-time ESD Fiscal Officer (now the CFO of Vancouver SD) and paid him to spend four (4) Saturdays providing one-on-one crash trainings in budgeting and the use of the WesPAC software to his assistant.*

*Finally, with the hiring of our current superintendent in July of 2016, the District solicited and obtained help from ESD 113 Fiscal Services to help close the 15-16 books and restate the F-196 as it appeared the F-196’s for 13-14 and 14-15 were inaccurate. In addition, the District is providing three (3) years of specialized training through attendance at the ESD 113 Business Manager’s Academy for their current Business Manager.*

*It should also be noted that since July of 2016, the current superintendent and business manager have worked diligently to identify areas of concern and less than ideal internal controls; changing many processes and procedures to provide separation of duties, increase accountability and remove opportunities for misconduct across the district. InTouch accounting software has been incorporated into the Journal Entry processes and additional trainings have been done with staff.*

*We feel we have done all that we could have under the circumstances to protect district assets.*

#### **MOVING FORWARD**

*Going forward from here, we are in the process of establishing a policy that ties the Business Manager performance expectations to the Accounting Manual for Public School Districts in the State of Washington.*

*The Business Manager's Calendar of Monthly Duties as published by ESD 113 Fiscal Services will serve as a matrix for timely completion of various necessary tasks throughout the year.*

*Continued training is being provided to the current Business Manager as well as some strategic cross-training of other office staff to provide a knowledge base acceptable for routine over-sight.*

*More frequent audits as deemed prudent by the superintendent and the Board of Directors.*

### ***Auditor's Remarks***

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular 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 significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

Deficiency in internal control. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control

is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Probable. The future event or events are likely to occur.

Washington Administrative Code (WAC) 392-123-010 The accounting manual, states:

The superintendent of public instruction and the office of the state auditor shall publish and distribute to each school district and charter school an accounting manual which shall be referred to as *The Accounting Manual for Public School Districts of the State of Washington*. Such accounting manual, as now or hereafter amended, shall govern the accounting procedures of each school district and charter school and is hereby incorporated into this chapter by this reference. Prior to any revision thereof, the superintendent of public instruction shall publish notice of such proposed action and shall hold at least one public hearing.

Accounting Manual for Public School Districts in the State of Washington, Chapter 3 Accounting Guidelines Internal Controls, states in part:

Internal control is a management process to assist a school district in achieving the educational objectives adopted by the school board. This management control system should include procedures and policies to help ensure 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.

Accounting Manual for Public School Districts in the State of Washington, Chapter 7 General Journal Entries, states in part:

*County Treasurer Monthly Entry (From County Treasurer Report F-197)*

District records must be reconciled to the amounts reported on the County Treasurer Report F-197 . . . Refer to the F-197 section of the ABFR for line item definitions and additional guidance.

Washington Administrative Code (WAC) 392-123-132 Reconciliation of monthly county treasurers' statements to district records, states:

Every school district shall reconcile amounts reported by the county treasurer with the district records for all funds. Any differences shall be noted and adjustments to school district records shall be made if necessary.