

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Pierce County

January 1, 2016 through December 31, 2016

2016-001 The County needs to strengthen its internal controls to ensure accurate reporting of Unearned Revenues in the General Fund financial statements.

Background

Management is responsible for designing, implementing and maintaining internal controls to fairly present financial statements and provide reasonable assurance regarding reliability of financial reporting. The County prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified a deficiency in internal controls over accounting that could hamper the County's ability to produce reliable financial statements. This deficiency represents a significant deficiency.

Governmental Accounting Standards Board (GASB) Statement 65 "*Items Previously Reported as Assets or Liabilities*" requires that when revenues or other assets are reported in the fund statements and the revenue is not available, the government should report a deferred inflow of resources until this revenue becomes available.

Government Auditing Standards requires the auditor to communicate significant deficiencies, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

In 2012, the County early implemented GASB Statement 65.

The County used the pre-GASB 65 classification of Unearned Revenues to report sales and use tax revenue and penalties and interest on property taxes, which should have been reported as revenues or deferred inflows depending on revenue availability. The County's internal controls did not identify an omission in its application of the new accounting standard.

Cause of Condition

The County has experienced turnover in its accounting staff over the past several years. At the same time, staff have been working to integrate a new financial

reporting software system. As a result, staff members have not been able to dedicate sufficient time and resources which contributed to the misapplication of GASB 65 as it relates to Unearned Revenue reporting. This resulted in a material misstatement in the fund financial statements, which the County has subsequently corrected.

Effect of Condition

We identified the following reporting errors in the General Fund Financial Statements:

Governmental Fund Balance Sheet reported an overstatement of \$22,245,591 in Unearned Revenues (Liability) in the General Fund. This balance should have been reported as follows:

Governmental Fund Balance Sheet

- Deferred Inflows – Unavailable Revenues Property Taxes should have increased by \$9,065,029.
- Unassigned Fund Balance should have increased by \$11,523,785, reflecting the prior period recognition of Sales and Use Taxes Revenues.

Statement of Revenue, Expenditures and Changes of Fund Balance

- The General Fund Sales and Use Taxes Revenues should have reported an additional \$1,656,777.

The County corrected the errors and received an unmodified opinion on the financial statements.

Recommendation

We recommend the County devote sufficient time and resources to properly implement new accounting standards.

County's Response

Pierce County appreciates the thorough review provided by the Office of the Washington State Auditor of our 2016 Financial Statements. The County concurs with the finding and recommendations. In response, the County has strengthened internal controls. The reporting issue noted by the Auditors was corrected prior to completion of the County's 2016 Comprehensive Annual Financial Report (CAFR) and an accurate 2016 financial statement was published for Pierce County for which the Auditor issued an unmodified opinion.

Specifically, the County has changed how certain general fund revenues received in January and February of each year are reported to correct a previous misapplication of Governmental Accounting Standards Board (GASB) 65 reporting guidelines. The County has also taken actions to improve reporting accuracy and our interpretation of GASB reporting requirements.

Beginning with the 2016 CAFR, and in compliance with GASB 65 reporting requirements, certain revenues received in January and February will no longer be reported as unearned revenue. In effect, this change is a 60 day shift of the 12 month period for which these general fund revenues are recorded. A corresponding prior period adjustment was also made to ensure that this reporting change does not appear to result in an increase in revenues.

We thank the Auditor's staff and management for their continued support and assistance in fulfilling our commitment to presenting accurate financial statements.

Auditor's Remarks

We appreciate the timely actions taken by County staff during the audit to improve reporting accuracy and their understanding of GASB reporting requirements. County staff were very helpful during the audit process. We will review these changes during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23

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

Statement No. 65 of the Governmental Accounting Standards Board: *Items Previously Reported as Assets and Liabilities.*

Budgeting, Accounting and Reporting Systems Manual – Accounting, Accounting Principles and General Procedures, Internal Control and 3.5 Deferred Outflows/Inflows of Resources

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**Pierce County
January 1, 2016 through December 31, 2016**

2016-002 The County did not have adequate internal controls to ensure compliance with federal cash management requirements.

CFDA Number and Title:	14.239 - HOME Investment Partnerships Program
Federal Grantor Name:	United States Department of Housing and Urban Development
Federal Award/Contract Number:	MC11-UC-530201, MC14-UC530201, MC15-UC530201, MC16-UC530201
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2016, the County spent \$1,949,264 in federal grant funds for the HOME Investment Partnerships Program. This program is designed to provide decent and affordable housing for low-income households. The program supports the construction, acquisition or rehabilitation of affordable housing units and creates rental and homeownership opportunities statewide for low-income households.

Funds spent in this program included grant awards that were subject to the cash management requirements of *Office of Management and Budget Circular A-102* and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal-grant recipients can receive payment for allowable program costs as either a cost reimbursement or on a cash-advance basis. Recipients must establish internal controls to minimize the time between receiving federal funds from the grantor and disbursing those funds to the vendors who provide goods or services and to subrecipients. The grantor has a provision allowing the County to request cash advances provided it limits the cash-advance requests to its immediate needs and minimizes the time

between receiving federal funds and disbursing them to vendors or subrecipients. The County must also track interest earned from cash advances and remit any interest back to the grantor when earnings are \$100 or more under Circular A-102 or \$500 or more under Uniform Guidance.

Our audit found the County did not have a policy established or adequate internal controls in place to ensure it minimized the time between receiving federal funds and disbursing those funds to subrecipients. The County also did not have controls in place to ensure interest earnings for advances of federal funds were tracked and remitted back to the grantor as federal regulations require. We consider these internal control deficiencies to be a material weakness.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The County experienced turnover in key personnel responsible for grant management. New staff members did not have necessary knowledge and training to ensure compliance with cash management requirements. In addition, the staff did not have a full understanding of the requirement to disburse funds to subrecipients promptly and did not understand that funds received were cash advances; therefore, the County did not track interest earnings.

Effect of Condition and Questioned Costs

Our audit found the County did not disburse funds to its one subrecipient promptly after receiving federal funds for five of 16 cash advances tested. For these five requests, the disbursement of funds to subrecipient ranged from three weeks to five months after funds were received from the grantor. The County did not earn interest in excess of the threshold for grants subject to Circular A-102 or Uniform Guidance; therefore, the County was not required to remit interest earnings to the grantor.

Recommendations

We recommend the County establish and follow internal controls to ensure compliance with cash management requirements, including establishing an effective process to ensure the County identifies cash advances of federal awards and tracks interest as required.

County's Response

Pierce County thanks the Office of the Washington State Auditor for its review of our HOME Investment Partnerships Program. We will put the results of this review of Housing and Urban Development Grant Funds to use as part of our larger effort

to improvement grant management and oversight. The County has taken the following actions:

- *Updated internal controls overseeing cash management compliance requirements by establishing an additional process to help ensure timely disbursement of advances that have been received.*
- *Approved a policy pertaining to cash management compliance requirements.*

We appreciate the Auditor's staff and management for their continued support and assistance in fulfilling our commitment to presenting accurate statements.

Auditor's Remarks

We appreciate the timely actions taken by County staff during the audit. County staff were very helpful during the audit process. We will review these changes during our next audit.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 200.516 Audit findings, establishes reporting requirements for audit findings.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 200.303 Internal controls, establishes requirements for management of Federal awards to non-Federal entities.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 200.305 Payment, establishes requirements for the method of reimbursement and disbursement of Federal funds by non-Federal entities.

U.S. Office of Management and Budget (OMB) Circular A-102, Grants and Cooperative Agreements with State and Local Governments, Section 2 Post-award Policies, establishes requirements for cash management procedures.